Docket:	:	A.09-07-001
Exhibit Number	:	
Commissioner	:	John Bohn
Admin. Law Judge	:	Jeffrey O' Donnell
DRA Project Mgr.	:	Patrick Hoglund

DIVISION OF RATEPAYER ADVOCATES
CALIFORNIA PUBLIC UTILITIES COMMISSION

REPORT ON THE RESULTS OF OPERATIONS IN SOUTH SAN FRANCISCO DISTRICT OF CALIFORNIA WATER SERVICE COMPANY

Test Year 2011 and
Escalation Years 2012 and 2013
Application 09-07-001

For authority to increase water rates located in its
South San Francisco District serving
South San Francisco and vicinity,
San Mateo County.

San Francisco, California
February 10, 2010

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MEMORANDUM

The Division of Ratepayer Advocates ("DRA") of the California Public Utilities Commission ("Commission") prepared this Report in California Water Service Company's ("CWS") rate case proceeding A.09-07-001. In this docket, the Applicant requests an order for authorization to increase rates charged for water service by $1,709,000 or 11.5 % in Test year 2011; by $543,100 or 3.3% in Escalation year 2012; and by $543,100 or 3.2% in Escalation year 2013 in its Dixon District service area. The applicant requests adoption of a rate of return of 8.58% from D. 09-05-019. DRA presents its analysis and recommendations associated with the Applicant's request in this Report.

Patrick Hoglund serves as DRA's project coordinator in this review, and is responsible for the overall coordination in the preparation of this report. Appendix A contains witnesses' prepared qualifications and testimony.

DRA's reports on payroll, conservation expenses and special requests are included under separate Reports.

DRA's Legal Counsels for this case are Selina Shek, Allison Brown, and Hien Vo.

EXECUTIVE SUMMARY

CWS requests increasing rates by 11.5% in Test Year 2011 and 3.3% in Escalation Year 2012, whereas DRA recommends a decrease of 4.7% in Test Year 2011 and inflationary increases for the Escalation Years

Key Recommendations

DRA recommends that CWS' requested rate of return of 8.58% be adopted in this proceeding.

DRA's recommendations are based on lower total sales (Chapter 2), lower estimates of Operation and Maintenance expenses (Chapter 3), lower estimates of Administrative and General expenses (Chapter 4), lower Plant additions (Chapter 7) and lower Ratebase (Chapter 9).

DRA addresses its recommended treatment of CWS' 30 Special Requests ("SR") in a separate report. That report discusses Special Request #10 regarding consolidation of the Mid-Peninsula District with the South San Francisco District for rate making purposes.

List of DRA Witnesses and Respective Chapters

Chapter Number	Description	Witness
-	Executive Summary	
1	Overview and Policy Introduction and Summary of Earnings	Patrick Hoglund
2	Water Consumption and Operating Revenues	Lisa Bilir Zachary Burt
3	Operations and Maintenance (except Payroll) Expenses	Pat Ma
4	Administrative & General (except Payroll & Conservation) Expenses	Cleason Willis
5	Taxes Other Than Income	Jerry Oh
6	Income Taxes	Jerry Oh
7	Utility Plant in Service	Isaiah Larsen
8	Depreciation Reserve and Depreciation Expense	Isaiah Larsen
9	Ratebase N/G multiplier	Isaiah Larsen Richard Rauschmeier
10	Customer Service	Toni Canova
11	Rate Design	Lisa Bilir
12	Water Quality	Pat Ma
13	Step Rate Increase	Patrick Hoglund

CHAPTER 1: OVERVIEW AND POLICY

A. INTRODUCTION

This Report sets forth DRA's analysis and recommendations for A. 09-07-001, CWS' general rate increase request for Test Year 2011 and Escalation Years 2012 and 2013.

B. SUMMARY OF RECOMMENDATIONS

Tables 1-1 through 1-3 of the Summary of Earnings compare the results of operations for Test Year 2011 including revenues, expenses, taxes and ratebase.

C. DISCUSSION

CWS requests the total revenues as follows:

Year	Amount of Increase	Percent
2011	$1,709,000	11.5%
2012	$ 543,100	3.3%
2013	$ 543,100	3.2%

CWS estimates that its proposed rates in the Application will produce revenues providing the following returns:

Year	Return on Rate Base	Return on Equity
2011	8.58%	10.2%
2012	8.58%	10.2%
2013	8.58%	10.2%

D. CONCLUSION

DRA recommends a revenue decrease for the Test Year as follows (Escalation Years 2012 and 2013 are covered in Chapter 12):

Year	Amount of Decrease	Percent
2011	$694,800	4.7%

D.07-12-055 authorized the last general rate increase for CWS in A. 06-07-022, resulting in a rate of return on rate base of 8.66% in 2008-2009. Present rates in this report are based on Advice Letter No.1928, which became effective June 1, 2009, as authorized by D.07-12-055.

A comparison of DRA and CWS' estimates for rate of return on rate base for the Test Year 2011 at present and the utility's proposed rates is shown below:

	RATE OF RETURN		
	DRA	CWS	Diff
Present Rates	10.72%	4.66%	-6.06%
Proposed Rates	15.95%	8.58%	-7.37%

TABLE 1-1

CALIFORNIA WATER SERVICE COMPANY
SOUTH SAN FRANCISCO DISTRICT

SUMMARY OF EARNINGS

TEST YEAR 2011

(AT PRESENT RATES)

Item	DRA Estimate	CWS Estimate	CWS exceeds DRA Amount	%
	(Thousands of $)			
Operating revenues	14,798.1	14,879.5	81.4	0.6%
Operating expenses:				
Operation & Maintenance	8,221.9	9,151.9	930.0	11.3%
Administrative & General	654.3	709.0	54.7	8.4%
G. O. Prorated Expense	1,599.9	2,156.3	556.4	34.8%
Dep'n & Amortization	1,104.6	1,264.4	159.8	14.5%
Taxes other than income	243.5	288.8	45.3	18.6%
State Corp. Franchise Tax	181.3	18.3	(163.0)	-89.9%
Federal Income Tax	730.8	114.9	(615.9)	-84.3%
Total operating exp.	12,736.3	13,703.6	967.2	7.6%
Net operating revenue	2,061.8	1,175.9	(885.8)	-43.0%
Rate base	19,230.8	25,214.7	5,983.9	31.1%
1 Return on rate base	10.72%	4.66%	-6.06%	-56.5%

TABLE 1-2

CALIFORNIA WATER SERVICE COMPANY
SOUTH SAN FRANCISCO DISTRICT

SUMMARY OF EARNINGS

TEST YEAR 2011

(AT UTILITY PROPOSED RATES)

Item	DRA Estimate	CWS Estimate	CWS exceeds DRA Amount	%
	(Thousands of $)			
Operating revenues	16,495.6	16,588.7	93.1	0.6%
Operating expenses:				
Operation & Maintenance	8,224.5	9,154.5	930.0	11.3%
Administrative & General	654.3	709.0	54.7	8.4%
G. O. Prorated Expense	1,599.9	2,156.3	556.4	34.8%
Dep'n & Amortization	1,104.6	1,264.4	159.8	14.5%
Taxes other than income	243.5	288.8	45.3	18.6%
State Corp. Franchise Tax	331.1	169.2	(162.0)	-48.9%
Federal Income Tax	1,270.0	683.0	(587.0)	-46.2%
Total operating exp.	13,427.9	14,425.1	997.2	7.4%
Net operating revenue	3,067.7	2,163.6	(904.1)	-29.5%
Rate base	19,230.8	25,214.7	5,983.8	31.1%
Return on rate base	15.95%	8.58%	-7.37%	-46.2%

TABLE 1-3

CALIFORNIA WATER SERVICE COMPANY
SOUTH SAN FRANCISCO DISTRICT

SUMMARY OF EARNINGS

TEST YEAR 2011

(DRA ESTIMATES)

Item	DRA Est. @ Present Rates	@ Rates Proposed by DRA	Proposed Exceeds Present Amount	%
	(Thousands of $)			
Operating revenues	14,798.1	14,103.3	(694.8)	-4.7%
Operating expenses:				
Operation & Maintenance	8,221.9	8,220.8	(1.1)	0.0%
Administrative & General	654.3	654.3	0.0	0.0%
G. O. Prorated Expense	1,599.9	1,599.9	0.0	0.0%
Dep'n & Amortization	1,104.6	1,104.6	0.0	0.0%
Taxes other than income	243.5	243.5	0.0	0.0%
State Corp. Franchise Tax	181.3	120.0	(61.3)	-33.8%
Federal Income Tax	730.8	510.1	(220.7)	-30.2%
Total operating exp.	12,736.3	12,453.2	(283.1)	-2.2%
Net operating revenue	2,061.8	1,650.0	(411.8)	-20.0%
Rate base	19,230.8	19,230.8	0.0	0.0%
Return on rate base	10.72%	8.58%	-2.14%	-20.0%

CHAPTER 2: WATER CONSUMPTION AND OPERATING REVENUES

A. INTRODUCTION

This chapter presents DRA's analysis and recommendations regarding the forecasted number of customers, water sales and operating revenues for CWS' South San Francisco district. South San Francisco had an average of 16,833 service connections in 2008; the South San Francisco district includes the City of South San Francisco and vicinity, in San Mateo County. DRA reviewed CWS' data responses, testimony, application, and workpapers before formulating its own estimates.

B. SUMMARY OF RECOMMENDATIONS

DRA adhered to the methods outlined in the Rate Case Plan ("RCP") in DRA's analysis of sales forecast and revenues. Whereas, CWS' sales forecast method differed from the RCP. Appendix A to Chapter 2 for DRA's Bakersfield report provides a detailed explanation of DRA's sales forecast and revenue methods. The Commission should uphold the methods outlined in the RCP by adopting DRA's recommendations presented in this report.

1) Average Active Service Connections

CWS proposes to forecast the number of customers using the five-year average change in customers by customer class for the period 2004-2008 for all customer classes. DRA accepts CWS' forecasted number of customers for all customer classes.

2) Metered Sales and Supply

The Commission should require CWS to use the method proposed by DRA for residential and business customers, in accordance with the RCP, going forward, and should also adopt DRA's estimates for metered sales and supply in this case. Table 2-1 at the end of this chapter illustrates DRA and CWS' proposed

sales per average customer for each customer class. DRA uses the same general methodology as CWS to estimate multiple regression equations in accordance with the RCP and the "New Committee Method" ("NCM"). As is outlined in the NCM, rain, temperature and time are included in the regression model, where possible. The primary difference between DRA and CWS' forecasts are that CWS used the regression equations to calculate weather-adjusted recorded sales from 2008 and used this as its estimated sales for 2011. DRA used the regression equations to calculate forecasted sales for 2011 and 2012, based on the 30-year monthly average rain and temperature, in accordance with the RCP.[1]

3) Operating Revenues

The Commission should adopt DRA's estimates for operating revenues. DRA uses the same method as CWS to calculate operating revenues, although DRA presents the operating revenues differently for illustrative purposes (see Appendix A to Chapter 2 for DRA's Bakersfield report in section B. 1. and B. 2. for the complete explanation).

4) Unaccounted for Water

CWS estimates 1.72% unaccounted for water in South San Francisco and DRA agrees.

C. DISCUSSION

1) Average Active Service Connections

Customer growth is the forecasted growth of a customer base in a given area. CWS and DRA use customer growth to project revenues for 2011-2012. The RCP, adopted in D.07-05-062 requires the number of customers to be forecast using a five-year average of the change in the number of customers by customer class, unless an unusual event occurs, in which case an adjustment to the five-year

[1] D.07-05-062, Appendix A – Rate Case Plan and Minimum Data Requirements for Class A Water Utilities General Rate Applications, p. A-23, footnote 4, (B) "Use 30-year average for forecast values for temperature and rain"

average may be made.[2] Table 2-2 and 2-3 at the end of this chapter summarize DRA and CWS' proposed average number of customers for each customer class in 2011 and 2012, respectively.

a. Residential, Business, Multifamily, Public Authority, Industrial, and Other

For Residential, Business, Multifamily, Public Authority, Industrial, and Other customer classes, CWS proposes to forecast the number of customers using the five-year average of the change in the number of customers by customer class. DRA agrees.

2) Metered Sales and Supply

Table 2-4 and 2-5 at the end of this chapter summarize DRA and CWS' proposed metered and flat rate sales in South San Francisco for each customer class in 2011 and 2012, respectively.[3] DRA removed CWS' 1.5% conservation adjustment to consumption in 2012 and the reasons are described in Appendix A to the Bakersfield report, section A. 4.

a. Residential metered

DRA accepts CWS' use of the unconstrained regression model. However, DRA used the regression equation to forecast sales, while CWS used the regression model to weather-normalize 2008 recorded sales. Workpaper Revenue-001 shows the regression model that DRA and CWS chose. The following table summarizes DRA and CWS' recommendations:

[2] D.07-05-062, Appendix A: RCP, p. A-23, footnote 4.

[3] If DRA's sales forecast combined with DRA's other recommendations leads to higher bill increases than CWS presented in its notices to customers, DRA recommends that the total bill increases should be capped at CWS' proposed levels.

Table 2-a: forecasted sales (ccf[4]/service)

	CWS	DRA	% difference
2011	108.3	103.6	-4.4%
2012	106.7	102.3	-4.2%

b. Business

CWS proposed forecasting future sales by using the unconstrained model to weather-adjust 2008 sales. DRA found insufficient statistical confidence for several monthly temperature variables in the unconstrained model. When DRA calculated the constrained model, a low confidence level resulted for the time variable coefficient. Good statistical confidence was found for all variables in the modified constrained model (including temperature and rain but not time); DRA proposes using this model to forecast sales. Workpaper Revenue-001 shows DRA's regression model. Table 2-b below summarizes DRA and CWS' recommendations for sales per service for business customers:

Table 2-b: forecasted sales (ccf/service)

	CWS	DRA	% difference
2011	910.7	888.1	-2.5%
2012	897.0	888.1	-1.0%

c. Multifamily

Multifamily customers accounted for 4.48%[5] of metered sales for the South San Francisco district in 2008. CWS proposes to weather-adjust 2008 sales using the unconstrained model with four monthly temperature variables removed to project future use. DRA ruled out the use of the regression models for this customer class because of poor statistics calculated in the unconstrained and constrained model. DRA proposes to forecast sales using the five-year average of sales in this customer class (1,196.3ccf/service). This recommendation leads to an

[4] 100 cubic feet

[5] Calculated from data in CWS' Table 4-C

overall difference between DRA and CWS of 2.5% for the Multifamily customer class.

Table 2-c: forecasted sales (ccf/service)

	CWS	DRA	% difference
2011	1,166.9	1,196.3	2.5%
2012	1,149.4	1,196.3	4.1%

d. Industrial

Industrial customers in the South San Francisco district accounted for 8.14% of metered sales in 2008. For the Industrial customer class, CWS recommends using the average of the last five years of sales to forecast future sales. CWS found poor statistical confidence and poor explanatory power for the unconstrained and constrained models. DRA came to the same conclusion and agrees with CWS' recommendation.

Table 2-d: forecasted sales (Kccf / Industrial customer class)[6]

	CWS	DRA	% difference
2011	333.4	333.4	0.0%
2012	328.4	333.4	1.5%

e. Public Authority

Public Authority customers in the South San Francisco district accounted for 4.76% of metered sales in 2008. The confidence level for three of the monthly temperature variables did not meet DRA's criteria, but since it was so close (88% confidence), DRA accepts CWS' use of the unconstrained regression model. However, DRA used the regression equation to forecast sales, while CWS used the regression model to weather-normalize 2008 recorded sales. Table 2-e below

[6] The numbers in Table 2-d differ from the numbers in Table 2-1 because Table 2-d illustrates sales for the entire customer class, while Table 2-1 illustrates sales per average customer within each customer class. DRA and CWS forecasted sales for Industrial, Public Authority, and Other customer classes for the entire customer class, rather than for an average customer.

compares DRA and CWS' forecasted sales for the Public Authority customer class.

Table 2-e: forecasted sales (Kccf)[7]

	CWS	DRA	% difference
2011	184.5	155.7	-15.6%
2012	181.7	150.1	-17.4%

f. Other

DRA agrees with CWS' proposed method to use the five-year average sales for the Other customer class.

3) Operating Revenue

Tables 2-6 and 2-7 at the end of this chapter summarize DRA and CWS' forecasted operating revenue at present rates in 2011, at CWS proposed rates in 2011 and at present rates in 2012, respectively.

a. Residential metered

CWS calculates operating revenue for metered residential customers by (1) taking the sum of estimated quantity revenues calculated for each meter size, for each month and for each tier of the increasing block rate design based on three-year average sales patterns and (2) adding this to the estimated service charge revenues, calculated by taking the average number of customers each year and multiplying it by the service charge. CWS' method is outlined in detail in Appendix A of Chapter 2 in DRA's Bakersfield Report. DRA does not recommend any changes to this method.

[7] The numbers in Table 2-e differ from the numbers in Table 2-1 because Table 2-e illustrates sales for the entire customer class, while Table 2-1 illustrates sales per average customer within each customer class. DRA and CWS forecasted sales for Industrial, Public Authority, and Other customer classes for the entire customer class, rather than for an average customer.

b. Business, Multifamily, Public Authority, Industrial and Other

CWS calculates operating revenues for Business, Multifamily, Public Authority, Industrial, and Other customers by (1) taking the sum of estimated quantity revenues for each meter size, for each month based on three-year average sales patterns and (2) adding the quantity revenues to the estimated service charge revenues, calculated by multiplying the forecasted average number of customers by the meter charges. CWS's method is outlined in detail in Appendix A to Chapter 2 of DRA's Bakersfield Report. DRA does not recommend any changes to this method.

4) Unaccounted for Water

CWS estimates 1.72% unaccounted for water in South San Francisco based on a five-year average of the percentage of unaccounted for water from 2004-08. DRA accepts the proposed unaccounted for water estimate.

D. CONCLUSION

1) Average Active Service Connections

The Commission should adopt DRA's recommended number of service connections.

2) Metered Sales and Supply

DRA recommends adherence to the RCP and NCM for forecasting metered sales and supply and recommends that the Commission adopt DRA's forecasted sales estimates and require CWS to use the method proposed by DRA for residential and business customers going forward.

3) Operating Revenues

DRA accepts CWS' method for calculating operating revenues, with the following modifications for illustrative purposes: for all customer classes, DRA used the present rates given by CWS at the time it filed the GRC application to illustrate Operating Revenues at Present Rates for 2011 and 2012. Also, DRA

used the proposed rates from CWS' GRC application filed in July 2009 to calculate Operating Revenues at Proposed Rates. Appendix A to Chapter 2 for DRA's Bakersfield report in section B. 1. and B. 2. provides a detailed explanation.

4) Unaccounted for Water

CWS estimates 1.72% unaccounted for water in South San Francisco and DRA agrees.

TABLE 2-1

CALIFORNIA WATER SERVICE COMPANY
SOUTH SAN FRANCISCO DISTRICT
WATER SALES PER AVERAGE CUSTOMER

TEST YEAR 2011

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(CCF/CONN./YR)			
Residential	114.1	114.1	0.0	0.0%
Business	877.6	877.6	(0.0)	0.0%
Multiple Family	1,200.3	1,200.3	0.0	0.0%
Industrial	5,129.2	5,128.9	(0.3)	0.0%
Public Authority	688.9	816.3	127.4	18.5%
Other	1,666.7	1,664.0	(2.7)	-0.2%
Irrigation	0.0	0.0	0.0	0.0%
Res. Flat Rate	0.0	0.0	0.0	0.0%

TABLE 2-2

CALIFORNIA WATER SERVICE COMPANY
SOUTH SAN FRANCISCO DISTRICT

AVERAGE NUMBER OF CUSTOMERS

TEST YEAR 2011

Item	DRA	CWS	CWS exceeds DRA Amount	%
Metered Connections				
Residential	14,081	14,081	0	0.0%
Business	1,932	1,932	0	0.0%
Multiple Family	156	156	0	0.0%
Industrial	65	65	0	0.0%
Public Authority	226	226	0	0.0%
Other	6	6	0	0.0%
Irrigation	0	0	0	0.0%
Reclaimed	0	0	0	0.0%
Total metered connections	16,466	16,466	0	0.0%
Flat Rate Connections				
Residential Flat	0	0	0	0.0%
Private Fire Protection	612	612	0	0.0%
Public Fire Protection	26	26	0	0.0%
Total flat rate connections	638	638	0	0.0%
Total Active Connections				
Include Fire Protection	17,104	17,104	0	0.0%
Exclude Fire Protection	16,466	16,466	0	0.0%

TABLE 2-3

CALIFORNIA WATER SERVICE COMPANY
SOUTH SAN FRANCISCO DISTRICT

AVERAGE NUMBER OF CUSTOMERS

ESCALATION YEAR 2012

Item	DRA	CWS	CWS exceeds DRA Amount	%
Metered Connections				
Residential	14,101	14,101	0	0.0%
Business	1,939	1,939	0	0.0%
Multiple Family	157	157	0	0.0%
Industrial	64	64	0	0.0%
Public Authority	229	229	0	0.0%
Other	7	7	0	0.0%
Irrigation	0	0	0	0.0%
Reclaimed	0	0	0	0.0%
Total metered connections	16,497	16,497	0	0.0%
Flat Rate Connections				
Residential Flat	0	0	0	0.0%
Private Fire Protection	622	622	0	0.0%
Public Fire Protection	27	27	0	0.0%
Total flat rate connections	649	649	0	0.0%
Total Active Connections				
Include Fire Protection	17,146	17,146	0	0.0%
Exclude Fire Protection	16,497	16,497	0	0.0%

TABLE 2-4

CALIFORNIA WATER SERVICE COMPANY
SOUTH SAN FRANCISCO DISTRICT

TOTAL SALES AND SUPPLY

TEST YEAR 2011

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(KCCF/YEAR)			
Metered Sales				
Residential	1,606.0	1,606.0	0.0	0.0%
Business	1,695.6	1,695.6	(0.0)	0.0%
Multiple Family	187.2	187.2	0.0	0.0%
Industrial	333.4	333.4	(0.0)	0.0%
Public Authority	155.7	184.5	28.8	18.5%
Other	10.0	10.0	(0.0)	-0.2%
Irrigation	0.0	0.0	0.0	0.0%
Reclaimed	0.0	0.0	0.0	0.0%
Total metered sales	3,987.9	4,016.6	28.8	0.7%
Flat Rate Sales				
Residential	0.0	0.0	0.0	0.0%
Unaccounted For Water 1.72%	69.9	70.4	0.5	0.7%
Total delivered	4,057.8	4,087.0	29.2	0.7%
Supply				
Company Wells	135.0	135.0	0.0	0.0%
Purchases - SFPUC	3,922.8	3,952.0	29.2	0.7%
Total production	4,057.8	4,087.0	29.2	0.7%

TABLE 2-5

CALIFORNIA WATER SERVICE COMPANY
SOUTH SAN FRANCISCO DISTRICT

TOTAL SALES AND SUPPLY

ESCALATION YEAR 2012

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(KCCF/YEAR)			
Metered Sales				
Residential	1,606.0	1,606.0	0.0	0.0%
Business	1,695.6	1,695.6	0.0	0.0%
Multiple Family	187.2	187.2	0.0	0.0%
Industrial	333.4	328.4	-5.0	-1.5%
Public Authority	150.1	181.7	31.7	21.1%
Other	10.0	9.8	-0.2	-1.7%
Irrigation	0.0	0.0	0.0	0.0%
Reclaimed	0.0	0.0	0.0	0.0%
Total metered sales	3,982.2	4,008.7	26.5	0.7%
Flat Rate Sales				
Residential	0.0	0.0	0.0	0.0%
Unaccounted For Water 1.72%	69.8	70.3	0.5	0.7%
Total delivered	4,052.1	4,079.0	27.0	0.7%
Supply				
Company Wells	135.0	135.0	0.0	0.0%
Purchases - SFPUC	3,917.1	3,944.0	26.9	0.7%
Total production	4,052.1	4,079.0	26.9	0.7%

TABLE 2-6

CALIFORNIA WATER SERVICE COMPANY
SOUTH SAN FRANCISCO DISTRICT

OPERATING REVENUES

TEST YEAR 2011

(AT PRESENT RATES)

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
WRAM Revenues				
Residential	4,420.2	4,420.2	0.0	0.0%
Business	4,803.7	4,803.7	0.0	0.0%
Multiple Family	530.5	530.5	0.0	0.0%
Industrial	944.5	944.5	0.0	0.0%
Public Authority	441.1	522.7	81.6	18.5%
Other	28.3	28.3	0.0	0.0%
Irrigation	0.0	0.0	0.0	0.0%
Recycled	0.0	0.0	0.0	0.0%
Total General Metered	11,168.3	11,249.7	81.4	0.7%
Non-WRAM Revenues				
Service Charges	3,210.7	3,210.7	0.0	0.0%
Residential Flat	0.0	0.0	0.0	0.0%
Private Fire Protection	329.5	329.5	0.0	0.0%
Public Fire Protection	12.3	12.3	0.0	0.0%
Other	77.3	77.3	0.0	0.0%
Total Flat Rate	3,629.8	3,629.8	0.0	0.0%
Deferred Revenues	0.0	0.0	0.0	0.0%
Total revenues	14,798.1	14,879.5	81.4	0.6%

TABLE 2-7

CALIFORNIA WATER SERVICE COMPANY
SOUTH SAN FRANCISCO DISTRICT

OPERATING REVENUES

TEST YEAR 2011

(AT CWS PROPOSED RATES)

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
WRAM Revenues				
Residential	5,054.9	5,054.9	0.0	0.0%
Business	5,493.5	5,493.5	0.0	0.0%
Multiple Family	606.6	606.6	0.0	0.0%
Industrial	1,080.2	1,080.1	(0.1)	0.0%
Public Authority	504.4	597.7	93.3	18.5%
Other	32.4	32.3	(0.1)	-0.3%
Irrigation	0.0	0.0	0.0	0.0%
Recycled	0.0	0.0	0.0	0.0%
Total General Metered	12,772.0	12,865.2	93.2	0.7%
Non-WRAM Revenues				
Service Charges	3,273.4	3,273.4	0.0	0.0%
Residential Flat	0.0	0.0	0.0	0.0%
Private Fire Protection	354.8	354.8	0.0	0.0%
Public Fire Protection	13.3	13.3	0.0	0.0%
Other	82.1	82.1	0.0	0.0%
Total Flat Rate	3723.6	3723.5	-0.1	0.0%
Deferred Revenues	0.0	0.0	0.0	0.0%
Total revenues	16,495.6	16,588.7	93.1	0.6%

CHAPTER 3: OPERATIONS AND MAINTENANCE EXPENSES

A. INTRODUCTION

This Chapter presents DRA's analysis and recommendations on Operation and Maintenance ("O&M") expenses in the South San Francisco District of California Water Service Company ("CWS") for the Test Year 2011. Table 3-A below shows the comparison of total O&M expense estimates at present rates for the Test Year.

Table 3-A. Comparison of South San Francisco District's Total O&M Expense Estimates (including Payroll and Conservation.)

Test Year 2011	DRA	CWS	CWS Exceeds DRA
Total O&M Expenses	$8,221,900	$9,151,900	$930,000 or 11.3%

B. SUMMARY OF RECOMMENDATIONS

DRA recommends that the Commission adopt its estimates for individual O&M expense accounts as discussed in the following sections. For the South San Francisco District, DRA recommends adjustments to CWS' Test Year expense estimates for the following O&M expense accounts: (1) Purchased Water; (2) Purchased Power; (3) Purchased Chemicals; (4) Postage; (5) Operations Transportation; (6) Maintenance Transportation; and (7) Uncollectibles.

C. DISCUSSION

DRA conducted an independent analysis of CWS testimonies, workpapers and methods of estimating the O&M expenses for the South San Francisco District in this General Rate Case ("GRC").

Generally, CWS uses a five-year average of recorded expenses adjusted for inflation to estimate its O&M expenses. CWS deviates from the five-year average approach when it believes excluding a certain year's recorded expense from the

average would provide a more accurate estimate of the forecast years' expense levels.

DRA reviews the overall pattern of inflation-adjusted recorded expenses to assess the reasonableness of CWS' estimates and to propose alternative estimates, where applicable. DRA also examines the recorded data to determine the appropriateness of including in the forecast (averaging) calculation certain costs, such as one-time costs that are not expected to occur in the forecast period.

In calculating expenses that are a function of water production, sales and/or number of customers, DRA uses its estimates presented in Chapter 2 - Water Consumption and Operating Revenues of this Report. Both DRA and CWS apply DRA Energy Cost of Service Branch's escalation factors issued on May 31, 2009 to develop forecasted expenses.

Table 3-1 at the end of this Chapter summarizes the O&M expense estimates DRA recommends and compares them with CWS requests for Test Year 2011. Each O&M expense account listed in Table 3-1 is discussed below.

1) OPERATION EXPENSES

(a) PURCHASED WATER

About 97% of the District's water production is purchased from the San Francisco Public Utilities Commission ("SFPUC"). Purchased Water expenses in the South San Francisco District are comprised of fixed and variable charges from the SFPUC, plus fees to the Bay Area Water Users Association.

DRA agrees with CWS' method of estimating the District's Purchased Water costs and the use of currently effective SFPUC rates and charges. However, in its calculations, CWS incorrectly applies the SFPUC purchased water unit cost to *total water production* quantity, which includes well production. DRA corrects that error by removing the well production quantities from the

calculations; DRA's estimates reflect its *purchased water* quantities presented in Chapter 2 of this Report.

DRA recommends that the Commission adopt DRA's Test Year 2011 Purchased Water expense estimate shown below.

O&M Account	DRA	CWS	CWS Exceeds DRA
Purchased Water	$6,477,500	$6,748,500	$271,000 or 4.2%

(b) GROUNDWATER EXTRACTION CHARGES

CWS' South San Francisco District does not incur any groundwater extraction charges.

(c) PURCHASED POWER

To estimate its purchased power expense, CWS first multiplies its estimated kilowatt-hours per hundred thousand cubic feet (KWh/KCcf) of water produced by its estimated annual water production quantity (in KCcf).[8] The resulting energy requirement (in KWh) is then multiplied by the average cost per KWh purchased from PG&E.[9]

As mentioned earlier, CWS purchases about 97% of the South San Francisco District's water requirement from SFPUC; the balance CWS produces via the District's well field at Station 1. The District's total Purchased Power expense is the sum of purchased power expense estimates for well pumping and booster pumping. CWS calculates power expense for well pumping and booster pumping separately because the two operations have different efficiencies and unit cost profiles.

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[8] CWS uses KWh/KCcf and unit cost quantities from the District's last GRC. As stated in CWS' July 1, 2009 General Report, projected changes in the unit cost of purchased power are not included; this expense is offsettable by an advice letter filing.

[9] Ibid..

DRA agrees with CWS' method of estimating Purchased Power expense for this District with one exception. DRA corrects a spreadsheet error in which CWS uses an acre-feet ("AF") quantity instead of the correct quantity in KCcF to calculate the purchased power expense for well pumping. DRA's estimates reflect this correction as well as its water production forecasts presented in Chapter 2 of this Report.

DRA recommends that the Commission adopt DRA's Test Year 2011 Purchased Power expense estimate shown below.

O&M Account	DRA	CWS	CWS Exceeds DRA
Purchased Power	$109,300	$71,900	-$37,400 or -34.2%

(d) PURCHASED CHEMICALS

Purchased Chemicals expense is a function of the cost of chemicals and the estimated water supply requirement. CWS develops its Test Year's estimate by multiplying the inflation-adjusted, recorded purchased chemical cost per unit of production by the total annual water production forecast (from applicable sources).

For the Test Year's estimate, CWS uses 2008 unit cost instead of a five-year average. In its response to DRA's data request, CWS provides the following reason for using recorded 2008 unit cost for this expense item.

> Cal Water has a treatment plant at Station 1 that has been off-line for a few years due to water quality issues. In 2008 Cal Water received approval from DPH to bring the treatment plant back on-line. When the treatment plant began operation, this requires additional costs for chemicals to treat the groundwater source. The District anticipates the expenses in this category will continue in the test years.[10]

DRA agrees with CWS' method of estimating this District's Purchased Chemicals expense and the use of the 2008 unit cost. DRA's estimates however reflect its water production forecasts recommended in Chapter 2 of this Report.

[10] CWS' response to DRA's data request PPM-003.

DRA recommends that the Commission adopt DRA's Test Year 2011 Purchased Chemicals expense estimate shown below.

O&M Account	DRA	CWS	CWS Exceeds DRA
Purchased Chemicals	$13,000	$13,100	$100 or 0.8%

(e) OPERATIONS PAYROLL

For discussion on Operations Payroll expenses, please refer to DRA's Payroll Report. DRA's Operations Payroll expense estimate for Test Year 2011 is included in Table 3-1 at the end of this Chapter.

(f) POSTAGE

CWS' annual postage costs for the District are a function of (1) postage rates, (2) the number of customers and (3) the number of mailings to each customer per year. In this GRC, CWS assumes the number of mailings per customer remains constant over the forecast period. However, CWS applies a 4.8% increase in postage cost per customer in 2009 to account for a May 11, 2009 rate increase implemented by the United States Postal Service ("USPS"). For 2010-2012, CWS escalates the postage cost per customer by those years' composite escalation factors.

DRA notes that the 4.8% increase in postage rate is applicable to first-class mailings. Since the CWS' customer mailings would qualify for USPS bulk mailing rates, applying the 4.8% in first-class rate increase to the forecast does not accurately reflect CWS' expected postage cost increase. DRA recommends using a lower 3.2% increase as an approximation of CWS' 2009 increase in postage cost per customer. The 3.2% increase is the average increase of USPS bulk mailing rates effective on May 11, 2009.

Additionally, DRA does not believe that escalation factors should be automatically applied to 2010-2012 postage expense forecasts. Annual rate increases are not at all certain. For example, according to the Associated Press on

October 19, 2009, "Postmaster General John E. Potter announced in an internal postal memorandum that there will be no rise in prices next year [2010] for products in which the agency dominates the market, such as first-class mail." Bulk-rate mailings fall into this same USPS product category and, therefore, are not expected to have a rate increase in 2010. For that reason, DRA recommends that escalation factors *not* be applied to the District's postage expense forecasts.

In addition to the above two adjustments to CWS' calculations, DRA also reflects its forecasted number of customers in Chapter 2 of this Report. DRA recommends that the Commission adopt DRA's Test Year 2011 Postage expense estimate shown below.

O&M Account	DRA	CWS	CWS Exceeds DRA
Postage	$68,600	$73,500	$4,900 or 7.1%

(g) OPERATIONS TRANSPORTATION

CWS develops the District's total Transportation expense estimate in aggregate for (1) Operations, (2) Maintenance, and (3) Administration and General (A&G). The total estimate is then allocated among these three areas by the average distribution over the last recorded period, which is 2008.

CWS develops its total transportation expense estimate based on recorded 2008 costs adjusted for inflation. Additionally, if the forecast period includes a request for additional vehicle(s), CWS increases the transportation expense estimate by the ratio of additional vehicle(s) to total number of existing vehicles. CWS does not request any additional vehicles for this District in this GRC.

Based on its review of the District's recorded expense levels, DRA believes the use of multi-year recorded data better reflects the annual variation in transportation expenses. DRA's estimates therefore are based on a five-year (2004-2008) average, instead of CWS' proposed 2008-only data. DRA uses CWS' allocation methodology to determine Transportation expense estimates for Operations, Maintenance and A&G.

DRA recommends that the Commission adopt DRA's Test Year 2011 Transportation expense estimates in Table 3-B below.

Table 3-B. Transportation Expense Estimates for South San Francisco District.

Transportation Expenses:	DRA	CWS	CWS Exceeds DRA
Operations	$64,400	$68,600	$4,200 or 6.5%
Maintenance	$19,700	$21,000	$1,300 or 6.5%
A&G	$0	$0	$0 or 0%
Total:	$84,100	$89,600	$5,500 or 6.5%

(h) UNCOLLECTIBLES

CWS estimates its Uncollectibles expense for the South San Francisco District by applying the average uncollectible rate from its most recent five-year period (2004-2008) to its revenue estimates. The uncollectible rate from each recorded year is calculated by dividing total recorded uncollectible expense by total recorded revenue. DRA reviews the South San Francisco District's recorded uncollectible rates from the most recent six years and finds the historical five-year average rate to be a reasonable estimate for the forecast period. DRA's estimates for total Uncollectibles however reflect DRA's revenue projections recommended in Chapter 2 of this Report.

DRA recommends that the Commission adopt an uncollectible rate of *0.15188%* for Test Year 2011 for the South San Francisco District. DRA's recommended Uncollectibles expense total is shown in Table 3-A at the end of this Chapter.

(i) SOURCE OF SUPPLY

CWS' Source of Supply expense estimates for the South San Francisco District are based on average recorded annual expenses from the most recent five years (2004-2008). DRA agrees with CWS' estimating approach for this account and recommends no change to CWS' Test Year 2011 Source of Supply expense estimate as shown below.

O&M Account	DRA	CWS	CWS Exceeds DRA
Source of Supply	$21,700	$21,700	$0 or 0%

(j) PUMPING

Pumping expenses include labor, miscellaneous, and fuel expenses. CWS' Pumping expense estimates for the South San Francisco District are based on average recorded annual expenses from the most recent five-year period (2004-2008). DRA agrees with CWS' estimating approach for this account and recommends no change to CWS' Test Year 2011 Pumping Expense estimate as shown below.

O&M Account	DRA	CWS	CWS Exceeds DRA
Pumping	$76,600	$76,000	$0 or 0%

(k) WATER TREATMENT

CWS' Water Treatment expense account includes well sampling, inorganic laboratory, bacterial laboratory, outside lab and miscellaneous expenses. CWS' Water Treatment expense estimates for the South San Francisco District are based on average recorded expenses from the most recent five-year period (2004-2008). DRA agrees with CWS' estimating approach for this account and recommends no change to CWS' Test Year 2011 Water Treatment expense estimate as shown below.

O&M Account	DRA	CWS	CWS Exceeds DRA
Water Treatment	$47,300	$47,300	$0 or 0%

(l) TRANSMISSION AND DISTRIBUTION

CWS' Transmission and Distribution ("T&D") expense account includes supervision and engineering, flushing, T&D lines, turn on's and turn off's, customer installation and miscellaneous expenses. CWS' T&D expense estimates for the South San Francisco District are based on average recorded expenses from the most recent five-year period (2004-2008). DRA agrees with CWS' estimating

approach for this account and recommends no change to CWS' Test Year 2011 T&D expense estimate as shown below.

O&M Account	DRA	CWS	CWS Exceeds DRA
T&D	$61,100	$61,100	$0 or 0%

(m) CUSTOMER ACCOUNTING

CWS' Customer Accounting expense estimates for the South San Francisco District are based on average recorded expenses from the most recent five-year period (2004-2008). DRA agrees with CWS' estimating approach for this account and recommends no change to CWS' Test Year 2011 Customer Accounting expense estimate as shown below.

O&M Account	DRA	CWS	CWS Exceeds DRA
Customer Accounting	$66,900	$66,900	$0 or 0%

(n) CONSERVATION

For discussion on Conservation expenses, please refer to DRA's Conservation Report. DRA's Conservation expense estimate for Test Year 2011 is included in Table 3-1 at the end of this Chapter.

2) MAINTENANCE EXPENSES

(a) MAINTENANCE PAYROLL

For discussion on Maintenance Payroll expenses, please refer to DRA's Payroll Report. DRA's Maintenance Payroll expense estimate for Test Year 2011 is included in Table 3-1 at the end of this Chapter.

(b) MAINTENANCE TRANSPORTATION

Section C.1.g of this Chapter presents DRA's analysis and recommendations on total transportation expenses for CWS' South San Francisco District. DRA recommends that the Commission adopt DRA's Test Year 2011

Maintenance Transportation expense estimate presented in Table 3-B (see Section C.1.g).

(c) STORES

CWS' Stores expense estimates for the South San Francisco District are based on average recorded expenses from the most recent five-year period (2004-2008). DRA agrees with CWS' estimating approach for this account and recommends no change to CWS' estimated Test Year 2011 Stores expense estimate shown below.

O&M Account	DRA	CWS	CWS Exceeds DRA
Stores	$18,900	$18,900	$0 or 0%

(d) CONTRACTED MAINTENANCE

CWS' Contracted Maintenance expense estimates for the South San Francisco District are based on average recorded expenses from the most recent five-year period (2004-2008). DRA agrees with CWS' estimating approach for this account and recommends no change to CWS' Test Year 2011 Contracted Maintenance expense estimate shown below.

O&M Account	DRA	CWS	CWS Exceeds DRA
Contracted Maintenance	$298,400	$298,400	$0 or 0%

D. CONCLUSION

DRA recommends that the Commission adopt its O&M expense estimates for the South San Francisco District as presented herein.

TABLE 3-1

CALIFORNIA WATER SERVICE COMPANY
SOUTH SAN FRANCISCO DISTRICT

OPERATION & MAINTENANCE EXPENSES

TEST YEAR 2011

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
At present rates				
Operating Revenues	14,798.1	14,879.5		
Uncollectible rate	0.15188%	0.15188%		
Uncollectibles	22.5	22.6	0.1	0.6%
Operation Expenses				
Purchased Water	6,477.5	6,748.5	271.0	4.2%
Replenishment Assessment	0.0	0.0	0.0	0.0%
Groundwater Extraction Charges	0.0	0.0	0.0	0.0%
Purchased Power	109.3	71.9	(37.4)	-34.2%
Purchased Chemicals	13.0	13.1	0.1	0.8%
Payroll	597.8	696.6	98.8	16.5%
Postage	68.6	73.5	4.9	7.1%
Transportation	64.4	68.6	4.2	6.5%
Uncollectibles	22.5	22.6	0.1	0.6%
Source of Supply	21.7	21.7	0.0	0.0%
Pumping	76.6	76.6	0.0	0.0%
Water Treatment	47.3	47.3	0.0	0.0%
Transmission & Distribution	61.1	61.1	0.0	0.0%
Customer Accounting	66.9	66.9	0.0	0.0%
Conservation	144.5	712.7	568.2	393.2%
Total Operation Expenses	7,771.2	8,681.1	909.9	11.7%
Maintenance Expenses				
Payroll	113.7	132.5	18.8	16.5%
Transportation	19.7	21.0	1.3	6.6%
Stores	18.9	18.9	0.0	0.0%
Contracted Maintenance	298.4	298.4	0.0	0.0%
Total Maintenance Expense	450.7	470.8	20.1	4.5%
Total O & M Expenses (incl uncoll)	8,221.9	9,151.9	930.0	11.3%
At proposed rates				
Operating Revenues	16,495.6	16,588.7		
Uncollectible rate	0.15188%	0.15188%		
Uncollectibles	25.1	25.2		
Total O & M Expenses (incl uncoll)	8,224.5	9,154.5	930.0	11.3%

CHAPTER 4: ADMINISTRATIVE & GENERAL EXPENSES

A. INTRODUCTION

This Chapter presents DRA's recommended expense levels for California Water Service Company's ("CWS") 2011 Test Year Administrative and General ("A&G") expenses for the South San Francisco District.

The categories of A&G expenses cover general expenses including Payroll, Transportation Expenses, Rent, Administration Charges Transfer, Workers' Compensation, Nonspecific Expenses, Amortization of Limited Term Investments and Dues and Donations Adjustment. Table 4-1 presents a comparison of total expense estimates for Test Year 2011.

DRA analyzed CWS' exhibits, supporting workpapers, CWS' responses to DRA' data requests, information provided in meetings, phone conversations, emails, and CWS' methods of estimating A&G expenses.

B. SUMMARY OF RECOMMENDATIONS

DRA's estimated total for A&G expenses is $654,300 for Test Year 2011. CWS' estimate for the same period is $709,000 or 8.4% more than DRA. DRA's estimated total for A&G expenses is $658,800 for 2012. CWS' estimate for the same time period is $723,300 or 9.8% more than DRA. The difference between the forecasted expense levels of DRA and CWS is the result of: 1) DRA's 2011 Test Year estimates of the various A&G activity expenses; 2) account by account adjustments; 3) different methodologies; and 4) the use of the May 2009 Energy Cost of Service Branch escalation factors memo to derive the estimates as discussed below.

C. DISCUSSION

1) Methodology

DRA conducted an independent analysis of CWS' workpapers and methods of estimating the A&G expenses. DRA analyzed CWS' application and exhibits, supporting workpapers, CWS' data request responses, information provided in meetings, field trips to CWS site locations, telephone conversations and e-mails. In general, DRA uses a five-year (2004-2008) average to derive its A&G expense estimates where it has differences with CWS. DRA also removes unusual expenses recorded in certain years to arrive at a different total than CWS, in particular for Nonspecific Expenses. DRA applies its escalation factors to all A&G accounts.

2) Payroll

For A&G payroll expense, please refer to DRA's Payroll Report.

3) Employee Benefits

There were no methodical differences between DRA and CWS in calculating employee benefits. DRA's estimates for the accounts below are based on (1) total payroll dollars, and (2) total number of employees. CWS' estimates are also a function of these two factors. Per employee unit benefit costs were developed by Milliman[11] and are based on a variety of actuarial assumptions. The underlying assumptions, except for the escalation factors, were accepted by DRA. Any differences are, therefore, attributable to different escalation factors and differing estimates for total company payroll and total General Office and district employees for 2011 and 2012.

[11] Milliman is CWS' Pensions and Benefits actuarial consultants.

DRA recommends the following amounts (thousands of dollars) for Account 795, Pensions and Benefits:

	DRA		CWS	
	2011	**2012**	**2011**	**2012**
Total Account 795	$516.9	$519.8	$568.2	$577.1

All company benefits are accounted for in general operations and allocated to each of the districts using the four-factor method of allocation. In general benefit costs are a function of employee payroll dollars, and/or the number of employees. The following is a breakdown of the sub-accounts included in the total Account 795 Pensions and Benefits:

(a) **Account 7951-1 Retirement Savings Plan.**

CWS provides employees with a 401(k) program and matches 50% of employee contributions up to 8% of payroll or the statutory contribution limit, whichever is less. Therefore, CWS' maximum contribution is 4% of company payroll. However, not all employees participate in the program. Based on actual participation levels, CWS' matching contribution during the last five years, was approximately 3%. This rate was used by CWS to forecast the test year amount, and is in line (or comparable) to those offered by other California utilities.[12]

DRA estimated the test year contribution based on the five-year average contribution percentage of 3%, which was multiplied by DRA's estimate of total company payroll (in 2011 and 2012).

[12] The 3% rate is in line with the 401(k) plans offered by San Jose Water, PG&E, Southern California Edison, and Sempra Energy. See the Milliman analysis, CWS General Report, Tab 12.

(b) **Account 7951-2 Retirement Fund.**

CWS' pension funding estimate is based on an actuarial forecast from Milliman. The Milliman analysis also reflects a unit cost per employee which DRA and CWS applied to the estimated number of employees to arrive at the test year's estimate. DRA and CWS' estimates differ because of different escalation factors and different estimates for total employees in the General Office and all districts.

The Milliman forecast is based on certain assumptions such as population growth, payroll changes, and salary adjustments. The Milliman forecast also assumes a long term rate on plan assets of 6.75%, and a discount rate of 5.75% for the years 2011 through 2013. CWS follows FASB[13] Statement of Financial Accounting Standards (SFAS) No. 87, as modified by SFAS 132 and SFAS 158.[14] CWS has followed SFAS 87 since it became effective in 1987. Prior to 1987, CWS pension costs equaled the cash contributions to the pension plan determined in accordance with ERISA.[15] The test year projections are based on Milliman's actuarial valuation as of January 1, 2009 for determining the Net Periodic Benefit Cost under SFAS 87. The underlying pension costs assumptions were accepted by DRA.

DRA was persuaded that CWS had taken appropriate steps to mitigate the ratepayer impact of Plan costs. Further, CWS undertook the following measures to avail itself of the benefits provided under (a) The Pension Protection Act of

[13] Financial Accounting Standards Board.
[14] CWS' response to DRA Data Request JRC-2, Q.7.
[15] Employment Retirement Income Security Act, or Federal law.

2006, (PPA) and (b) The Worker, Retiree and Employer Recovery Act (WRERA) of 2008:[16]

(i) CWS fully complied with PPA and WRERA. CWS modified the actuarial cost method for purposes of determining the minimum funding requirement to the Unit Credit method. CWS also adopted the use of the "3-segment" interest rates (for the 2008 minimum funding requirement) and the "full yield curve" (for the 2009 minimum funding requirement). The actuarial valuations for 2008 and 2009 have shown that the contributions by CWS will satisfy the minimum funding requirements as modified by PPA and WRERA.

(ii) In December 2008, CWS made an election to voluntarily reduce its carryover balance (i.e., pre-PPA credit balance) of $1,537,616 as of January 1, 2008 to $0, so that such amount could be included in its plan assets. This was done in order to improve the plan's funded percentages under PPA. In 2009, CWS elected to use the "full yield curve" to determine the funding target under PPA. This increased the plan's funded percentage for 2009.

(c) **Account 7952- Group Health Insurance.**

CWS administers its own (self-insured) employee health care plan. The cost of health insurance is based on actual claims experience and not outside premium payments. The plans include Medical, Dental and Vision care. Further, the plans are on the PPO model where employees are encouraged to use network health care providers in order to minimize costs. CWS' estimate is based on an actuarial forecast from Milliman and includes employee contributions of $125 per month. The Milliman forecast assumes that overall medical cost inflation will

[16] CWS' response to DRA Data Request JRC-2, Q.1.

continue to be 10% annually for the forecast period.[17] The Milliman analysis also reflects a unit cost per employee which DRA and CWS applied to the estimated number of employees. DRA and CWS' estimate differs because of different escalation factors and different estimates for total employees in the General Office and all districts. The underlying forecast assumptions were accepted by DRA.

(d) **Account 7952-1 Retiree Group Health Insurance.**

CWS administers its own (self-insured) retiree health care plan. Therefore, costs for these plans are based on claims experience, not outside premium payments. The plans are on the PPO model, where employees are encouraged to use network providers in order to minimize costs. Further, retirees pay a monthly premium of $300 per person (a retiree and spouse pay $600 per month). This rate decreases to $144 per person when there is other coverage such as Medicare.

The retiree plan is funded in advance in accordance with SFAS 106, which requires that annual funding of the plan be based on an actuarial analysis of the expected future expense arising during the employee service time. CWS' estimate is based on an actuarial forecast from Milliman. The Milliman forecast assumes that overall medical cost inflation will continue to be 10% annually for the forecast period. The Milliman analysis also reflects a unit cost per employee which DRA and CWS applied to the estimated number of employees. DRA and CWS' estimate differs because of different escalation factors and estimates for total employees in the General Office and all districts. The underlying forecast assumptions, except for the escalation factors, were accepted by DRA.

[17] Dental and Vision care inflation is forecasted at 5% each for 2011 through 2013.

4) Transportation Expense

DRA addresses Transportation Expense in Chapter 3 Operations and Maintenance Expenses of this Report. There are no A&G expenses for this district.

5) Rent

CWS' estimates rental expenses of $400 for Test Year 2011 and $400 for 2012.[18] DRA has verified the information regarding the Company's rental expense, and recommends adoption of this estimate.

6) Administration Charges Transfer

Administration Charges Transfer represents credits for unregulated activity. CWS' estimate of $35,800 for Test Year 2011, and $35,800 for 2012, for Administration Charges Transferred based upon the last recorded year.[19] DRA reviewed CWS' workpapers and recommends adoption of these estimates for Administration Charges Transferred.

7) Workers Compensation

CWS' estimate of $35,700 in Test Year 2011 and $39,400 in 2012 for Workers Compensation is based on actuarial expectations conducted by actuaries at Milliman USA ("Milliman"). An assumption embedded in the estimate is a provision to account for Workers' Compensation to include expected future payments from current employment.[20] In other words, instead of basing the costs on the well-established "pay-as-you-go methodology" that the Commission has

[18] Refer to Report on the Results of Operation and Prepared Testimony for the South San Francisco District, Chapter 6.

[19] Refer to CWS' Formal Application Workpapers for the South San Francisco District, Table 6-B.

[20] Refer to General Report on the Results of Operations and Prepared Testimony, pg. 62.

consistently utilized, CWS proposes changing to an accrual basis and including the amortization of past liabilities for which payments have not yet been made.

In the prior rate case, CWS requested the same methodology change. DRA disagreed and calculated a percentage reduction at the General Office level based on the 2002-2006 average for the prior Test Year 2008-2009. The Commission similarly applied DRA's recommended reduction to all the districts in that case. In Decision 08-07-008 (pages 25-26, Section 4.7 on Workers' Compensation), the Commission upheld the use of the "pay-as-you-go methodology" for accounting for Workers' Compensation insurance costs.

For the current rate case, DRA continues to disagree with CWS' proposed change in recovery methodology and recommends continuing the "pay-as-you-go methodology" for recovering this cost. To put in perspective CWS' current proposal for Test Year 2011, on a company-wide basis, i.e., 24 districts plus General Office, CWS' total proposed Workers' Compensation is $2,747,250. This amount is almost triple the total 2008 recorded amount of $992,800 and about 70% higher than the 2004-2008 five-year average (in 2009 dollars) of $1,643,900.

DRA reviewed the recorded amounts for Workers' Compensation for this District. DRA finds the recorded amounts for 2004 to 2008 are more reflective of the "pay-as-you-go methodology" for accounting for Workers Compensation that the Commission approved in D. 08-07-008. DRA then took a five-year average of these recorded amounts and escalated the five-year average using DRA's labor escalation factors to derive its Test Year 2011 and 2012 forecasts of $35,600 and $35,700 respectively for the South San Francisco District.

DRA recommends adopting its estimate for Workers Compensation for the Test Year's for this District.

8) Nonspecific Expenses

Nonspecific Expenses generally represent miscellaneous administrative and general expenditures. The Nonspecific Expenses account contains various sub-accounts. However, CWS does not provide estimated amounts for each sub-account for future years. Instead, it provides a compound figure for Nonspecific Expenses that are based on historical spending levels in all sub-accounts. CWS' Nonspecific Expenses estimates for Test Year 2011 and 2012 of $59,000 and $60,500 respectively are based on a five-year average. DRA reviewed all sub accounts within Nonspecific Expenses and adjusted some amounts for the years 2004 through 2008 under the following subaccounts: Account 792601 – Travel Meals Expense by $969, Account 792602 –Meals at CWS by $659, Account 799500 – Miscellaneous General Expense by $2,832, and Account 799501-Moving Costs by $8,052. DRA then escalated its five-year average using DRA's composite escalation factors to derive its Test Year 2011 forecast. DRA's estimates of $56,400 and $57,900 for Nonspecific Expenses for Test Year 2011 and 2012 forecasts respectively are lower than CWS' Nonspecific estimates. CWS' Nonspecific forecasts of $59,000 and $60,500 exceed DRA's estimates by $2,600 and $2,600, or 4.6%, and 4.5% respectively for Test Year 2011 and 2012. DRA's reasons for these adjustments are described below:

(a) Account 792601 – Travel Meals

DRA indentified and removed expenditures in this account from 2004 through 2008 for Bayshore Christmas lunch, Employee Celebration days. DRA believes that the previously mentioned expenditures were of no benefit to ratepayers, and removes them from DRA's estimate.

(b) Account 792602 – Meals at CWS

DRA identified and removed expenditures in this account from 2004 through 2008 for a Holiday lunch Bayshore, and an employee Retirement lunch. DRA believes that the previously mentioned expenditures were of no benefit to ratepayers, and removes them from DRA's estimate.

(c) Account 799500 - Miscellaneous General Expenses

DRA identified expenditures in this account from 2004 through 2008 for Employee Celeb Day Expenses. DRA believes that the previously mentioned expenditures were of no benefit to ratepayers, and removes them from DRA's estimate.

(d) Account 799501 – Employee Moving Costs

DRA identified expenditures in this account from 2004 through 2008 for multiple Moving expenses for an employee. DRA believes that the previously mentioned expenditures were of no benefit to ratepayers, and removes them from DRA's estimate.

9) Amortization of Limited Term Investment

This expense pertains to the amortization of intangible assets, such as capital planning studies. CWS' estimates $77,100 for Amortization of Limited Term Investment. CWS bases its estimate from the general method for this expense shown on CWS' amortization schedule. DRA reviewed this account and recommends adopting of CWS' Amortization of Limited Term Investment estimate for Test Year 2011 and 2012.

10) Dues and Donations Adjustment

The Dues and Donations Adjustment represents CWS' adjustment of non-professional dues paid historically, for ratemaking purposes. CWS' estimate for

Dues and Donations Adjustment is ($400). DRA has reviewed CWS' workpapers and recommends adoption of CWS' Dues and Donations Adjustment estimate.

D. CONCLUSION

DRA recommends that the Commission adopt DRA's A&G Expenses for the South San Francisco District.

TABLE 4-1

CALIFORNIA WATER SERVICE COMPANY
SOUTH SAN FRANCISCO DISTRICT

ADMINISTRATIVE & GENERAL EXPENSES

TEST YEAR 2011

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
At present rates				
Oper. Rev. less uncoll.	14,775.6	14,879.5		
Local Franchise Rate	0.0000%	0.0000%		
Franchise tax	0.0	0.0	0.0	0.0%
Payroll	4.1	4.8	0.7	17.1%
Benefits	516.9	568.2	51.3	9.9%
Transportation Expenses	0.0	0.0	0.0	0.0%
Rent	0.4	0.4	0.0	0.0%
Admin Charges Trsf	(35.8)	(35.8)	0.0	0.0%
Workmen's Compensation	35.6	35.7	0.1	0.3%
Nonspecifics	56.4	59.0	2.6	4.6%
Amort of Limited Term Inv.	77.1	77.1	0.0	0.0%
Dues & Donations Adjustment	(0.4)	(0.4)	0.0	0.0%
Total A & G Expenses	654.3	709.0	54.7	8.4%
(incl. local Fran.)	654.3	709.0	54.7	8.4%
At proposed rates				
Oper. Rev. less uncoll.	16,470.5	16,588.7		
Local Franchise Rate	0.0000%	0.0000%		
Fran. tax	0.0	0.0	0.0	0.0%
Total A & G Expenses	654.3	709.0	54.7	8.4%
(incl. local Fran.)	654.3	709.0	54.7	8.4%

CHAPTER 5: TAXES OTHER THAN INCOME

A. INTRODUCTION

This chapter presents DRA's analysis and recommendations on Taxes Other Than Income for the South San Francisco District of California Water Service's (CWS) Test Year 2011 General Rate Case. The category of Taxes Other Than Income is comprised of ad valorem (property taxes), business license fees, local franchise fees, and payroll taxes.

B. SUMMARY OF RECOMMENDATIONS

Differences between CWS' and DRA's estimates for Taxes Other Than Income are primarily due to differences in revenue, plant and payroll estimates. The methodologies used by CWS in estimating future taxes and fees are detailed below. Anywhere DRA has made adjustments to improve the consistency or accuracy of estimates has also been noted below.

C. DISCUSSION

1) AD VALOREM TAXES

CWS estimates future ad valorem taxes using the actual ad valorem tax percentage from the last recorded year. This percentage is applied to the following year's estimated net total of utility property accounts.[21] The pro-forma ad valorem estimate is the arithmetic average of the two years. DRA accepts this methodology and notes that differences between CWS and DRA estimates are due to differences in estimations of future plant.

[21] Net Total of Property = plant + materials & supplies + construction work in progress + present value of advances – advances & contributions – deferred income tax

2) BUSINESS LICENSE and LOCAL FRANCHISE FEES

The South San Francisco District pays a fixed business license fee to the City of South San Francisco. The South San Francisco District does not pay a Franchise Tax. DRA accepts the CWS' estimates for Business License Fee.

3) PAYROLL TAXES

CWS estimates future payroll taxes using projected payroll amounts and the effective tax rates from the last recorded year. The three components of payroll taxes are Federal Insurance Contributions (FICA), Federal Unemployment Insurance (FUI) and State Unemployment Insurance (SUI). All three components have statutory limits governing the maximum percentage that can be collected from employers (*see table, below*).

PAYROLL TAXES		2009 MAXIMUM	EXPLANATORY NOTES
FICA	Social Security Tax	6.2%	Social Security Tax is 6.2% applied to only the first $106,800 of an employee's salary.
	Medicare Tax	1.45%	
FUI Tax		0.8%	Federal Unemployment Tax is 6.2% reduced by an offset credit of up to 5.4% for a total of 0.8% on the first $7,000 of employee wages ($56 per employee).
SUI Tax (CA)		6.3%	State Unemployment Taxes vary by company from 1.5% to 6.2% plus an Employment Training Tax Rate of 0.1% for a maximum tax percentage of 6.3%.

DRA accepts the methodology utilized by CWS to estimate future payroll taxes for South San Francisco and notes that any differences are the result of differences in the estimates of future payroll.

D. CONCLUSION

DRA recommends Commission adoption of DRA's estimates of Taxes Other Than Income that are presented in Tables 5-1.

TABLE 5-1

CALIFORNIA WATER SERVICE COMPANY
SOUTH SAN FRANCISCO DISTRICT

TAX DEDUCTIONS AND CREDITS

TEST YEAR 2011

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Ad Valorem taxes	185.3	221.4	36.1	19.5%
Local Franchise (pres rates)	0.0	0.0	0.0	0.0%
Local Franchise (CWS prop rates)	0.0	0.0	0.0	0.0%
Social Security Taxes	56.0	65.2	9.2	16.4%
Business License (pres rates)	2.2	2.2	0.0	0.0%
Business License (CWS prop rates)	2.2	2.2	0.0	0.0%
Taxes other than income (present rates)	243.5	288.8	45.3	18.6%
Taxes other than income (CWS proposed rates)	243.5	288.8	45.3	18.6%
State Tax Depreciation	1,647.4	1,862.0	214.6	13.0%
Transp. Dep. Adj.	(14.3)	(22.1)	(7.8)	54.5%
State Tax Deduct(pres rates)	1,633.1	1,839.9	206.8	12.7%
State Tax Deduct (CWS prop rates)	1,633.1	1,839.9	206.8	12.7%
Fed. Tax Depreciation (pres rates)	1,413.7	1,597.8	184.1	13.0%
State Income Tax (pres. rates)	181.3	18.3	(163.0)	-89.9%
State Income Tax (CWS prop rates)	331.1	169.2	(162.0)	-48.9%
Pre. Stock Div. Credit	0.0	0.0	0.0	0.0%
DPAD (pres. Rates)	(6.2)	(21.5)	(15.3)	244.1%
DPAD (CWS prop. Rates)	(10.8)	(125.1)	(114.3)	1054.4%
Fed. Tax Deduct.(pres rates)	1,588.8	1,594.6	5.8	0.4%
Fed. Tax Deduct (CWS prop rates)	1,734.0	1,641.9	(92.1)	-5.3%

CHAPTER 6: INCOME TAXES

A. INTRODUCTION

This chapter presents DRA's analysis and recommendations on Income Taxes for the South San Francisco District of California Water Service (CWS) Test Year 2011 General Rate Case. In developing its recommendations, DRA reviewed the reports, workpapers, and data responses of CWS in conjunction with information obtained from the California Franchise Tax Board and the Internal Revenue Service.

B. SUMMARY OF RECOMMENDATIONS

The majority of the differences between CWS and DRA estimates of Income Taxes are attributable to differences in estimated revenue, expenses, and rate base. Anywhere DRA has made adjustments to the estimating methodology used by CWS is detailed below. The four areas in which DRA made adjustments to CWS calculations for South San Francisco pertain to the: (1) federal deduction of the California Corporate Franchise Tax, (2) California Corporate Franchise Tax total percentage, (3) calculation of the interest expense deduction, and (4) domestic production activities deduction.

C. DISCUSSION

1) DRA ADJUSTMENTS

(a) Federal Deduction of California Corporate Franchise Tax (CCFT)

D.89-11-058, issued in November of 1989, required that the prior year's CCFT be used as the deduction for calculation of test year federal income taxes. As discussed throughout the decision, companies at that time were required to pay estimated California taxes one year in advance.[22] D.89-11-058 corrected the

[22] California Revenue and Taxation Code, Part 11, Chapter 2, Article 2, Section 23151(f)(2)

timing difference between when companies had previously paid California taxes and when they had realized such payment as a deduction for federal income taxes.

Since 1989, the California Tax Code has changed so that corporations are no longer required to make estimated CCFT payments to the state one year in advance. In fact, California tax law now requires corporations to compute an estimated tax "upon the basis of the net income for that taxable year."[23] As such, DRA recommends using the current year's CCFT as a deduction in the current year's calculation of federal income taxes. Differing from D.89-11-058 yet more representative of current California tax practice, DRA's methodology provides a more accurate estimate of a utility's assumed tax consequences and revenue requirements. More importantly, consistent with long-standing regulatory tradition and Generally Accepted Accounting Procedures (GAAP), the DRA methodology more closely adheres to the fundamental "matching principle," where costs incurred in a given period should be matched against the revenue or benefits received in the same period.

(b) California Corporate Franchise Tax Total Percentage

Referencing D.84-05-036 yet failing to cite the specific ordering paragraph, section, or discussion, CWS added six-basis points to the CCFT percentage used to estimate state taxes for test year and escalation years. Through data requests, review of Commission decisions, and personal interviews, DRA attempted to find some justification for CWS' inclusion of an additional 0.06% in state tax estimates. Unable to substantiate the validity of this addition, DRA removed the percentage, which reduced CCFT estimates by 0.06%.

[23] Ibid

(c) Calculation of the Interest Expense Deduction

A formula error in CWS' workpapers for calculating the Interest Expense Deduction resulted in Working Cash being subtracted from Rate Base. DRA has corrected this error in the calculation of the deduction for South San Francisco. The recommended Interest Expense Deduction now equals Rate Base (including working cash) multiplied by the current CWS weighted-average-cost-of-debt (3.16%).[24]

(d) Domestic Production Activities Deduction (DPAD)

Beginning in taxable year 2010, Section 199 of the IRS Code allows a deduction equal to 9% of a taxpayer's qualified production activities income (QPAI). The calculation of this deduction by CWS for South San Francisco assumes that all income is from qualified production activities. This assumption results in an overestimation of the allowable deduction and an underestimation of the district's assumed taxes. DRA has corrected the DPAD calculation for South San Francisco to incorporate only those qualifying activities into the deduction. DRA multiplies the deduction calculated by CWS by the percentage of water produced[25] in the district (a qualifying activity).

2) GENERAL INCOME TAX CALCULATIONS

In calculating income taxes, both DRA and CWS subtract common expenses from estimated revenue. For the calculation of state taxes, CWS has calculated tax depreciation amounts to reflect the required flow-through of deferred tax benefits, while federal tax depreciation amounts reflect the requirements of normalization.

[24] D.09-05-019: Base Year 2009 Cost of Capital for the three large multi-district Class A Water Utilities

[25] "produced water" and "purchased water" are the two categories of "total water" used to calculated DPAD

This methodology is consistent with the requirements of the Economic Recovery Act of 1981, the Tax Equity and Fiscal Responsibility Act of 1982, and the Tax Reform Act of 1986.

D. CONCLUSION

DRA recommends Commission adoption of DRA's estimates of Income Taxes that have been calculated and presented in Tables 6-1 and 6-2.

TABLE 6-1

CALIFORNIA WATER SERVICE COMPANY
SOUTH SAN FRANCISCO DISTRICT

TAXES BASED ON INCOME

TEST YEAR 2011

(PRESENT RATES)

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Operating revenues	14,798.1	14,879.5	81.4	0.6%
Deductions:				
O & M expenses	8,221.9	9,151.9	930.0	11.3%
A & G expenses	654.3	709.0	54.7	8.4%
G. O. Prorated expenses	1,599.9	2,156.3	556.4	34.8%
Exclude GO Book Depreciation	(213.4)	(248.0)	(34.6)	16.2%
Taxes not on Income	243.5	288.8	45.3	18.6%
Transportation Deprec Adj	(14.3)	(22.1)	(7.8)	54.5%
Interest	607.7	775.9	168.2	27.7%
Income before taxes	3,698.5	2,067.7	(1,630.8)	-44.1%
Calif. Corp. Franchise Tax				
State Tax Deductions	(1,647.4)	(1,862.0)	-214.6	13.0%
Taxable income for CCFT	2,051.1	205.7	(1,845.4)	-90.0%
CCFT Rate	8.84%	8.84%		
Additional Tax per D.84-05-036	0.0	0.1	0.1	0.0%
CCFT	181.3	18.3	(163.0)	-89.9%
Federal Income Tax				
Tax Depreciation	1,413.7	1,597.8	184.1	13.0%
State Corp Franch Tax	181.3	111.0	(70.3)	-38.8%
Pref Stock Dividend Credit	0.0	0.0	0.0	0.0%
Taxable income for FIT	2,103.5	358.9	(1,744.6)	-82.9%
Domestic Prod. Activities Ded.	(6.2)	(21.5)	(15.3)	244.1%
Adjusted Taxable Income	2,097.3	337.4	(1,759.8)	-83.9%
FIT Rate	35.00%	35.00%		
FIT	734.0	118.1	(615.9)	-83.9%
Investment Tax Credit	3.2	3.2	0.0	0.0%
Total FIT	730.8	114.9	(615.9)	-84.3%
Total FIT & CCFT	912.2	133.3	(778.9)	-85.4%

TABLE 6-2

CALIFORNIA WATER SERVICE COMPANY
SOUTH SAN FRANCISCO DISTRICT

TAXES BASED ON INCOME

TEST YEAR 2011

(AT CWS PROPOSED RATES)

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Operating revenues	16,495.6	16,588.7	93.1	0.6%
Deductions:				
O & M expenses	8,224.5	9,154.5	930.0	11.3%
A & G expenses	654.3	709.0	54.7	8.4%
G. O. Prorated expenses	1,599.9	2,156.3	556.4	34.8%
Exclude GO Book Depreciation	(213.4)	(248.0)	(34.6)	16.2%
Taxes not on Income	243.5	288.8	45.3	18.6%
Transportation Deprec Adj	(14.3)	(22.1)	(7.8)	54.5%
Interest	607.7	775.9	168.2	27.7%
Income before taxes	5,393.5	3,774.3	(1,619.1)	-30.0%
Calif. Corp. Franchise Tax				
State Tax Deductions	(1,647.4)	(1,862.0)	-214.6	13.0%
Taxable income for CCFT	3,746.0	1,912.3	(1,833.7)	-49.0%
CCFT Rate	8.84%	8.84%		
Additonal Tax per D.84-05-036	0.0	0.1	0.1	0.0%
CCFT	331.1	169.2	(162.0)	-48.9%
Federal Income Tax				
Tax Depreciation	1,413.7	1,597.8	184.1	13.0%
State Corp Franch Tax	331.1	90.9	-240.2	-72.5%
Pref Stock Dividend Credit	0.0	0.0	0.0	0.0%
Taxable income for FIT	3,648.6	2,085.6	(1,563.0)	-42.8%
Domestic Prod. Activities Ded.	(10.8)	(125.1)	-114.3	1054.4%
Adjusted Taxable Income	3,637.8	1,960.5	-1677.2	-46.1%
FIT Rate	35.00%	35.00%		
FIT	1,273.2	686.2	(587.0)	-46.1%
Investment Tax Credit	3.2	3.2	0.0	0.0%
Total FIT	1,270.0	683.0	(587.0)	-46.2%
Total FIT & CCFT	1601.2	852.2	(748.9)	-46.8%

CHAPTER 7: UTILITY PLANT IN SERVICE

A. INTRODUCTION

DRA's and CWS' estimates for the South San Francisco District Plant in Service for the Test Year 2011 and Escalation Year 2012 are shown in Tables 7-1 and 7-2 at the end of this chapter.

DRA reviewed and analyzed CWS' testimony, application, Minimum Data Requirements, workpapers, capital project details, estimating methods, and responses to various DRA data requests. DRA also conducted a field investigation of most of the proposed specific plant additions before making its own independent estimates including adjustments where appropriate. Important and significant differences between DRA's and CWS' estimates of specific plant additions are attributed to the items listed in Table 2.

B. SUMMARY OF RECOMMENDATIONS

DRA recommends that 1) plant additions for three specific projects in 2009 be disallowed, adjusted, or continue with existing advice letter treatment; 2) plant additions for five specific projects in 2010 be disallowed or adjusted; 3) plant additions for three specific projects in 2011 be disallowed; 4) plant additions for six specific projects in 2012 be disallowed; 5) plant additions for carryover projects be adjusted to reflect DRA's estimates; and 6) plant additions for non-specifics in 2009 through 2012 be adjusted to reflect DRA's escalation factors. Based on these recommendations, DRA's estimates for the 2009, 2010, 2011 and 2012 plant additions are $1,287,900, $863,000, $742,200, $752,100, respectively versus CWS' proposed amounts of $3,025,700, $4,843,800, $2,448,500, and $4,008,700, respectively for the same years.

Table 1. South San Francisco District

Company funded Plant Additions,
Including Carryovers and Non-Specifics
(Thousands of Dollars)

	2009	2010	2011	2012	AVG
DRA	$1,287.9	$863.0	$742.2	$752.1	$911.3
CWS	$3,025.7	$4,843.8	$2,448.5	$4,008.7	$3,581.7

Table 2. Specific Projects Differences Comparison

Budget Year	Project ID Number	Category	Project Description	CWS Proposed Budget	DRA Proposed Budget
2009	17303	Storage	Paint Interior Complete - Sta.101 Tank 1 - Broadmoor	$114,100	$95,500
2009	15978	Land	New Well Site - Parcel C	$416,200	Keep existing Advice Letter Cap & Deadline
2009	15979	Land	New Well Site - Parcel D	$350,000	Keep existing Advice Letter Cap & Deadline
2010	20323	Pumps	Energy Monitoring Program	$30,000	Pilot Program in Marysville
2010	20683	Pumps	Pumping Equipment - Sta. 2	$375,700	$0
2010	20683	Structures	New Pump Building - Sta. 2	$125,300	$0
2010	20514	Storage	Paint Interior Roof Support Trusses – Sta. 8 Tank 1	$97,900	$41,600
2010	29590	Intangible Plant	Integrated Long Term Water Supply Plan	$121,500	$0
2011	18019	Pumps	Equip New Well C - Drilled in 2007 - Sta. 1	$403,500	MTBE Proceeds
2011	20323	Pumps	Energy Monitoring Program	$31,000	Pilot Program in Marysville
2011	20611	Pumps	Replace Splitcase Pump, Motor, & Energy Monitoring - Sta. 101-B	$42,000	$0
2012	15981	Wells	Drill & Develop New Well - Parcel C	$613,300	MTBE Proceeds
2012	15982	Wells	Drill & Develop New Well - Well D	$546,231	$0
2012	20323	Pumps	Energy Monitoring Program	$32,000	Pilot Program in Marysville

2012	20613	Pumps	Replace Splitcase Pump, Upgrade Motor, & Add Energy Monitoring - Sta. 101-A	$56,000	$0
2012	20621	Pumps	Replace Can Booster Pump, Motor, & Energy Monitoring - Sta. 5-C	$56,000	$0
2012	20688	Land	Land - Driveway - Sta. 11	$41,100	$0

C. DISCUSSION

The South San Francisco District has recorded $2,044,100 in average gross plant additions during the past five years (2004-2008).[26] DRA notes that during this same period, the Commission authorized $2,342,800 in gross capital additions for the South San Francisco District that were included in rates. Thus, CWS has completed 13% less capital additions than the Commission approved, creating a significant profit for CWS from the difference. As was stated in the 2006 DRA report for this district, South San Francisco District has a history of proposing more projects that it can actually complete in the rate case cycle. The district's average gross plant addition request for the period of 2009-2012 is $3,909,900 which represents a 91% increase over historical recorded plant additions. On a going-forward basis, DRA recommends $1,239,500 in average gross plant additions during 2009-2012.

1) Carryover Projects

CWS identifies $929,698 in 2009, $2,705,274 in 2010, and $905,900 in 2012 carryover projects respectively in its ratebase workpapers (totaling $4.5 million). In the Results of Operation report for the South San Francisco District, CWS identifies $4,142,000 in carryover projects. DRA was not able to reconcile the two estimates, even after a clarifying data request was sent.

[26] Gross plant additions include company funded plant additions as well as contributions and advance deposits for specific plant.

Based upon the CWS response to the data request MD7-008 on all carryover projects, DRA calculated its carryover estimate by subtracting advice letter projects from the carryover totals, since advice letter projects have uncertain costs and completion dates, and may not occur at all.[27] DRA estimates no carryover project budget for this rate case cycle.

CWS lists carryover project 11520 with a $127,700 cost estimate and project 11522 with a $983,300 cost estimate for construction of a new customer service and operations center in San Mateo. Project 11522 was authorized in the last GRC by Advice Letter filing capped at $983,300. The customer service center will jointly serve both South San Francisco and Mid-Peninsula districts, which CWS has proposed to consolidate. DRA supports this consolidation, as described in Special Request #10. In terms of project 11520, CWS did not provide any details of the scope of the project, other than it would be design-related work. During the 2009 site visit, DRA observed no progress being made towards construction of the new customer service and operations center.

DRA has reservations about the need for the new building (including projects 11519 and 11521 in Mid-Peninsula and projects 11520 and 11522 in South San Francisco) based upon the available space it observed during the site visit and other alternatives. The existing site consists of three buildings: a customer service center, an operations center, and a storage facility. DRA asked CWS if it has investigated moving storage of records out of the third building so district employees could utilize the additional space. CWS replied that it had not examined this, since the third building was previously considered unsafe to occupy by the previous owners due to seismic standards.[28] CWS stated that it has not conducted any studies to examine seismically retrofitting the existing buildings

[27] Advice letter projects are handled separately though a rate base offset.

instead of demolition and construction of new buildings.[29] CWS also claims the existing building contains asbestos in the roof or floor tiles, but has not conducted a study to positively identify the sources of asbestos or examine the costs to remove those sources.[30]

CWS states that to date it has spent less than $6,000 on all four projects which have a total budget of $4.3 million. Given the extensive unexplained delays and lack of urgency showed by CWS in building the new customer service and operations center which was first approved two rate cases ago in 2004, it does not appear to be a high priority project for CWS, and likely not necessary for improved customer service or operations. DRA therefore recommends that advice letter project 11522 should keep the existing deadline (January 1, 2011) and cap ($983,300) approved in the last GRC.[31] Since CWS has not examined prudent alternatives and has no explanation for the excessive delays for this project no further extensions of advice letter projects should be granted. DRA recommends that project 11520 should be approved as an advice letter capped at $127,700 with the same January 1, 2011 deadline as project 11522 instead of being authorized in 2010 capital additions.

CWS lists carryover project 11697 to add Granular Activated Carbon (GAC) treatment to the filter plant at Station 1. According to CWS, this project will treat wells 1-14 and 1-19 that are contaminated with MTBE and other organic compounds. CWS agrees with DRA that this previously approved advice letter

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(continued from previous page)

[28] CWS response to DRA data request MD7-002, Question 1.

[29] CWS response to DRA data request MD7-003, Question 7.

[30] Ibid.

[31] See settlement agreement to A.06-07-017. http://docs.cpuc.ca.gov/PUBLISHED/GRAPHICS/76972.PDF

project should be funded through the proceeds from the MTBE settlement.[32] DRA has removed $400,000 CWS in contributions in aid of construction listed by from the MTBE settlement proceeds in its ratebase workpapers. Instead, DRA recommends that MTBE contributions should be placed in a memorandum account with ratemaking treatment as modified by Phase I of A.09-07-011. DRA also recommends that if well site C is secured prior to the advice letter deadline, projects 18019 and 15981 to equip, drill and develop this new well should be funded by the proceeds from the MTBE settlement.

CWS lists carryover project 9670 (total budget of $800,500) for a new well in San Mateo as completed and in-service in response to MD7-008, but stated that the project was canceled in an earlier response.[33] The $800,500 in costs should be removed from carryover capital additions and DRA has removed them from its capital budget estimate.

Carryovers projects 15976-15979 to acquire land for four new wells ($350,000 cap each), project 15980 for new well construction at Station 1 ($750,000 cap) were approved in the last GRC with advice letter treatment and specific caps. CWS claims that project 15984 to equip the new well ($400,000) was approved without advice letter treatment, but DRA found no mention of the project in its last report, the Decision or settlement. DRA requested status updates on these projects and CWS stated projects 15976 and 15978 were still open as property acquisition from the City had not been completed. CWS stated that it expected to finish negotiation by the end of 2009 to obtain 3 properties. Projects 15980 and 15984 were still on hold until the land purchase was completed. Only

[32] CWS response to DRA data request MD7-003, Question 5.

[33] CWS response to DRA data request MD7-002, Question 3. CWS stated that only $21,754 in costs had been incurred.

advice letter carryover project 9678 ($730,900 cap) for new well #1-22 was in the final permitting and design phase.

CWS seeks to move carryovers 15978 and 15979 for land purchase into rates in this GRC without following the advice letter process and with increased costs. The current advice letter deadline for these projects is the effective date for new rates in the current GRC, which is January 1, 2011. DRA recommends that these projects remain as advice letter projects with the existing deadlines and caps. CWS has not provided any compelling evidence that these projects should be moved into rates at this time given the slow pace of viable well property acquisition, or that the costs should be increased. It is highly uncertain whether CWS will be able to obtain properties for the additional wells in a timely fashion, which is likely to prevent projects 15984 and 15980 from moving forward. Therefore, DRA recommends that project 15980 remain as an advice letter projects with the existing $750,000 cap and deadline of January 1, 2011. Project 15984 should be approved as an advice letter project with the same deadline and a cap of $400,000 due to these concerns.

Carryover project 15530 for $106,700 in 2012 to design and permit a storage tank expansion at Reservoir 3 has been delayed by CWS due to concerns regarding prohibitive costs for the upgrade. As well, DRA does not agree with the need to expand storage capacity at Reservoir 3 based upon CDPH Drinking Water and GO 103-A standards. Therefore, DRA recommends that this carryover be removed from carryover capital additions.

2) Main, Services and Hydrant replacement projects

CWS' requests a total of $2.3 million from the years 2009-2012 in Company funded specific Mains, Service and Hydrant Replacement Projects as shown in Table 3 below:

Table 3. Requested Mains, Services and Hydrants Replacement Costs

	2009	2010	2011	2012	Totals
Mains	$445,900	$442,800	$627,700	$315,700	$1,832,100
Services	$114,400	$180,900	$8,100	$74,250	$377,650
Hydrants	$10,800	$27,000	$5,400	$16,500	$59,700
Non-Specific Mains, Services, Streets and Hydrants[34]	$425,800	$425,200	$433,800	$445,500	**$1,730,300**
Total Specific	$571,100	$650,700	$641,200	$406,450	**$2,269,450**
Total including non-specific	$1,030,600	$1,119,900	$1,121,300	$896,950	**$4,168,750**

The $2.3 million in specific projects is in addition to the requested $1.9 million in non-specific mains, service, street and hydrant replacement projects, for a total of $4.2 million in mains, hydrants and service replacement projects.

CWS declined to provide historical costs for mains, services, hydrants, valves and meters to DRA, despite multiple data requests.[35] CWS' claimed justification for these projects usually asserts either numerous leaks or fireflow improvements as a justification for replacement of these mains, services and hydrants.

(a) **Fireflow:** In terms of fire flow, according to GO 103-A, "The utility shall not be responsible for modifying or replacing at its expense any existing facilities, which are otherwise adequate, in order to provide increased fire flow or duration due to changes in the standards after the initial construction."[36]

[34] The non-specific CWS budget has been adjusted for DRA's inflation factors discussed at the end of this chapter.

[35] See non-responsive CWS answers to DRA data requests MD7-016, MD7-017 and NKS-005.

[36] GO 103-A, VI. Fire Protection Standards, 3.Replacement of Mains A.Changes to Fire Code, p.25.

CWS' replacement of pipe merely to improve fireflow cannot therefore be justified.

(b) **Leaks/100 miles of main:** Further, CWS provided the following response to ALJ O'Donnell's request for an exhibit showing CWS' methodology for mains replacement, "CWS annually determines the number of leak for each district on the basis of leaks per one hundred miles of main. This information along with the actual length of targeted mains in a district is used to set the annual target main replacement length." However, when DRA asked for the leaks per one hundred miles of main for projects in this GRC, CWS was unable to provide such information.[37]

(c) **Repair vs replacement:** When DRA asked CWS how it concluded a particular targeted main was beyond its "useful life", CWS responded: "In reality, one can extend the "useful life" of many facilities, but the cost to do so may outweigh the cost to replace."[38] However when DRA asked CWS if it did any analysis to show that the cost to repair was higher than the cost to replace for the targeted mains in this general rate case, CWS said it had not done such an analysis.[39]

DRA therefore concludes that CWS' is not able to effectively prioritize its specific hydrant, main and service replacement projects based on actual conditions of the pipe and using tools such as AWWA's "Decision Support System for

[37] CWS' response to DRA data request NKS-006, question 7, attached in Appendix B to the Chico District report.
[38] CWS' response to DRA data request NKS-002, question 11, attached in Appendix B to the Chico District Report.
[39] CWS' response to DRA data request NKS-002, question 8, attached in Appendix B to the Chico District Report.

Distribution System Piping Renewal", which have been available since 2002.[40] DRA notes that other utilities, such as California American Water Company, routinely prepare a "Condition Based Assessment" document prepared by a licensed professional engineer to assess the condition of their transmission and distribution systems, in each district to identify and prioritize investment in transmission and distribution infrastructure.[41]

DRA therefore recommends that the Commission:

1) Disallow the specific main, hydrant and services replacement projects i.e. a total of $2.3 million.

2) Allow the non-specific budget in the amount of $1.7 million for mains, service, street and hydrant projects to cover any repairs or unforeseen circumstances.

3) Direct CWS to develop a "condition-based assessment" prepared by a licensed professional engineer including a prioritization plan, a comparison of the cost to repair versus replacement, and an analysis of leaks/100 miles to justify its main replacement programs in future rate cases.

3) Projects 20604, 20611, 20613, & 20621 - Pump Replacement Program

CWS budgets $52,000 in 2010, $42,000 in 2011, and $112,000 in 2012 capital additions for four pump replacement projects and associated energy

[40] In its response to DRA data request NKS-002, question 12, CWS replied it had not used this or a similar tool to evaluate its mains targeted for replacement in this general rate case. The response is attached in Appendix B.

[41] For example, in A.08-01-027, Cal Am conducted a condition-based assessment of its infrastructure for its Monterey district, and prioritized its proposals in that rate case based on the condition of the infrastructure.

monitoring devices. CWS claims that the pump replacement projects are necessary due to low efficiency pumps and motors, and in some cases to increase flow capacity to meet peak hour demand conditions or fire flow requirements. However, all cases except project 20604 to replace pump 5-A, DRA discovered that CWS is proposing to replace pumps that are rated 50% or greater in terms of operational plant efficiency (OPE). According to established CPUC pump test standards, only pumps below an OPE of 50% are considered "Low" efficiency. DRA recommends that the following pump replacement projects be disallowed due to recent pump tests not meeting this minimum criterion: 20611, 20613, and 20621. DRA recommends approving project 20604 to replace pump 5-A which had a 44% OPE in a 2003 pump test.

DRA thus recommends that the Commission approve $52,000 in 2010 pump capital additions and $88,000 for non-specific pump projects during 2009-2012.

4) Project 20683 – Overhaul Station 2

Project 20683 budgets $501,000 to demolish and rebuild Station 2 which houses three booster pumps (A, B, and C). CWS states that these pumps are old, obsolete and hard to find repair parts for, causing long lead times and high maintenance costs. CWS did not provide any details regarding recent maintenance costs or periods where pumps were off-line due to repair work. CWS mentioned that since the pumps are of different makes and models and installed in parallel they work against each other when operating simultaneously. CWS provided no quantitative reduction in pumping capacity due to this configuration, however. According to the WS&FMP booster pumps A, B and C are currently in service with a total pumping capacity of 2.5 MGD.[42] CWS was unable to provide any

[42] South San Francisco WS&FMP, p.7-8.

recent pump tests for these pumps due to their piping geometry,[43] but the WS&FMP listed pump C with an operational plant efficiency of 53% (CPUC rating of Fair) in 2003.[44]

Station 2 pumps into zone 265 and supplements flows when wells at Station 1 are off-line.[45] Pump 5-A with a 0.5 MGD capacity also pumps into zone 265.[46] The total maximum day demand (MDD) for zone 265 is currently 0.8 MGD, with no increase predicted at build out.[47] Based on pump capacities listed in the WS&FMP, these demands can be easily met by Station 2 and pump 5-A while leaving a 2.2 MGD surplus. In fact, if only pump B was operational (the lowest capacity pump with an output of 0.43 MGD),[48] CWS could meet the MDD for zone 265 coupled with operating pump 5-A. Although the pumps at Station 2 are older, they are not identified as deficient in any way by the WS&FMP or CWS, except that replacement parts are hard to find. Without factual documentation of operational problems due to age, DRA cannot recommend replacing a more than adequate pump station that can be maintained at lower cost with proper preventative maintenance.

5) Project 20323 - Energy Monitoring Program, 2009 – 2012

CWS budgets $93,000 during 2010-2012 for power meters, flow meters and pressure recording transducers to more accurately measure the real-time energy consumption at its well and booster stations in the South San Francisco

[43] CWS response to DRA data request MD7-003, Question 4.
[44] South San Francisco WS&FMP, p. 4-4.
[45] Ibid., at p. B-6.
[46] Ibid., at p.7-8.
[47] Ibid.
[48] Ibid., p. 4-4.

District. DRA supports a pilot study of the energy monitoring program in the Marysville District to properly identify the implementation costs and operational benefits of having highly accurate and fine-scaled information on the unit costs (in both dollars and kWh) of water supply. DRA believes that a pilot program in the Marysville District is appropriate after CWS informed DRA that most of the capital infrastructure was already in place in this district, thus requiring little to no capital additions. Since the operational efficiency benefits are highly uncertain, a pilot program would allow quantification before a company-wide program is launched.[49] Therefore, DRA recommends that the energy monitoring program in South San Francisco be disallowed and removed from capital additions for those years.

6) Vehicle Replacement, 2009 – 2012

CWS proposes to replace ten vehicles over the 2009-2012 rate case cycle in both Mid-Peninsula and the South San Francisco Districts.[50] DRA examined all the vehicle replacement projects and determined that only two of the ten conform to the current DGS replacement criteria. Project 20213 to replace a 2004 Chevrolet C-1500 X-cab and project 17773 to replace a 2006 Dodge Ram 1500 Quad Cab are recommended by DRA for replacement in 2009 and 2011, respectively. None of the other remaining vehicles will meet the mileage standard of 120,000 miles by 2012 for light trucks and sedans, nor the 150,000 miles standard for vehicles with a gross vehicle weight rating (GVWR) of over 8,500 lbs or vehicles with a four wheel drive train.

[49] In this GRC, CWS budgeted $3.7 million for the energy monitoring program on a company-wide basis.

[50] MD7-011, Question 1. CWS informed DRA in its response that it had decided to cancel seven vehicle replacement projects.

DRA notes that the Commission has previously ruled that the most recent DGS criteria were the appropriate standards for replacement in rate cases involving both CWS and Southern California Water Company.[51] DRA discovered that DGS no longer uses an age based criteria (formerly 8 years) and now relies upon mileage as the sole metric to determine replacement.[52] DGS states that, "The decision whether to retain, reutilize, or dispose of any vehicle not meeting the minimum replacement criteria shall be based on an inspection taking into account the following factors:

- Current mechanical condition.
- Previous maintenance and repair record.
- Extent of needed repairs and availability of parts and life expectancy of vehicle after repair.
- Current sale value.
- Cost and availability of replacement unit and accessories.
- Owning agency's ability to replace unit.

Since CWS did not submit a report to describe why an exception to the DGS criteria should be made to any of its vehicle replacements in South San Francisco, DRA recommends approving two vehicle projects (20213 and 17773) at an estimated cost of $18,900 and $23,700, respectively, in 2009 and 2011 capital additions.

[51] D.06-01-025 for Southern California Water Company, and D.07-12-055 for CWS.
[52] DGS Fleet Handbook, April 22, 2008. http://www.documents.dgs.ca.gov/ofa/handbook.pdf.

7) Projects 17303 & 20514 – Interior Tank Painting

CWS proposes $114,100 in 2009 capital additions for project 17303 to paint the interior of Broadmoor Tank 1 at Station 101 and $97,900 in 2010 capital additions for project 20514 to paint the interior of Tank 1 at Station 8. DRA examined the condition of the tanks and agrees that the repainting is necessary and prudent. DRA disagrees on the cost estimates however.

For project 17303, CWS referenced Blandor Tank 2 at Station 28 in the Los Altos District with an interior surface area of 5,847 sq. ft. This tank painting was recorded in 2006 and 2007 at a total cost of $88,440[53] resulting in a unit cost of $15.13 per sq. ft. for the interior painting. DRA scaled the cost of the Blandor tank painting to the 5,954 square feet for the Tank 1 and escalated by 3 years of inflation to arrive at its estimate of $95,500. Therefore, DRA recommends that this project be approved at an adjusted cost of $95,500 in 2009.

For project 20514, CWS provided no reference project for its cost estimate and instead merely assumed a $30 per sq. ft. cost for the 2,544 sq. ft. of interior painting, not including inspection, testing, overhead and engineering supervision. DRA does not have confidence in this unsupported cost estimation method and instead used the Blandor Tank 2 reference with a unit cost of $15.13 per sq. ft. After escalating for 4 years of inflation, DRA's total estimate for the interior tank painting is $41,600. Therefore, DRA recommends that this project be approved at an adjusted cost of $41,600 in 2010.

8) Project 29590 – Integrated Long Term Water Supply Plan

CWS budgets $121,500 in 2010 capital additions for an integrated long term water supply for the Bayshore District. CWS did not provide a justification

[53] CWS response to DRA data request MD7-001.

for this project either in hardcopy or online and DRA does not believe it is necessary, given the recently completed WS&FMP in 2006. Therefore, DRA recommends that this project be disallowed and removed from capital additions for 2010.

9) Project 20688 – Land for Driveway

CWS budgets $41,100 in 2012 capital additions to purchase land at Station 11 adjacent to Reservoir 7. CWS stated in its project justification that it currently needs to access the tanks at Station 11 through someone's property and proposes to build its own driveway nearby. CWS' justification is insufficient to demonstrate the need for the property. There is no estimate of the cost to build the driveway, and it is unclear what benefits would be obtained by having a company owned driveway for this site. Without further justification, DRA recommends disallowing this project and removing it from capital additions for 2012.

10) Non-specific Capital Budgets, 2009 to 2012

CWS proposed $607,500, $620,300, $634,700, and $648,500, respectively in plant additions for non-specifics in the four years from 2009 to 2012. CWS non-specific estimates are based on a 10-year average with a 2% yearly escalation factor. DRA agrees with using the 10-year average, but has used escalation factors for 2009 through 2012 from the May 2009 Energy Cost of Service Branch escalation factors memo. These factors are: 2009 = (5.5)%; 2010 = (0.1)%; 2011 = 2.0%; 2012 = 2.7%. Using these escalation factors the non-specific estimates are $562,800, $562,100, $573,500, and $589,000 for 2009, 2010, 2011, and 2012 respectively.

D. CONCLUSION

DRA's recommendations have been incorporated in the calculations for DRA's recommended Plant in Service as shown in Table 7-1 and Table 7-2.

TABLE 7-1

CALIFORNIA WATER SERVICE COMPANY
SOUTH SAN FRANCISCO DISTRICT

PLANT IN SERVICE

TEST YEAR 2011

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Plant in Service - BOY	48,030.3	53,923.7	5,893.4	12.3%
Additions				
Gross Additions	1,070.5	2,776.7	1,706.2	159.4%
Capitalized Interest	25.6	64.7	39.1	152.7%
Cap. Int. Plant Equiv CWIP	0.0	0.0	0.0	0.0%
Retirements	(123.6)	(123.6)	0.0	0.0%
Net Additions	972.5	2,717.8	1,745.3	179.5%
Adjustments				
Gen. Plant allocated to contracts	0.0	0.0	0.0	0.0%
Historic Capitalized Interest	(32.2)	(32.2)	0.0	0.0%
Plant in Service - EOY	49,002.8	56,641.5	7,638.7	15.6%
Weighting Factor	22.1%	22.1%		
Wtd. Avg. Plant in Service	48,213.0	54,492.1	6,279.1	13.0%

TABLE 7-2

CALIFORNIA WATER SERVICE COMPANY
SOUTH SAN FRANCISCO DISTRICT

PLANT IN SERVICE

ESCALATION YEAR 2012

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Plant in Service - BOY	49,002.8	56,641.5	7,638.7	15.6%
Additions				
Gross Additions	1,080.3	4,336.9	3,256.6	301.5%
Capitalized Interest	26.2	101.3	75.1	286.6%
Cap. Int. Plant Equiv CWIP	0.0	0.0	0.0	0.0%
Retirements	(152.5)	(152.5)	0.0	0.0%
Net Additions	954.0	4,285.7	3331.7	349.2%
Adjustments				
Gen. Plant allocated to contractors	0.0	0.0	0.0	0.0%
Historic Capitalized Interest	(30.3)	(30.3)	0.0	0.0%
Plant in Service - EOY	49,956.8	60,927.2	10,970.4	22.0%
Weighting Factor	22%	22%		
1 Wtd. Avg. Plant in Service	49,183.3	57,558.3	8,375.0	17.0%

CHAPTER 8: DEPRECIATION RESERVE AND DEPRECIATION EXPENSE

A. INTRODUCTION

This chapter presents DRA's analyses and recommendation on Depreciation for CWS' South San Francisco District. Tables 8-1 and 8-2 show weighted average accumulated depreciation and amortization for Test Year 2011 and Escalation Year 2012.

B. SUMMARY OF RECOMMENDATIONS

Differences in DRA's and CWS' estimates are the result of different plant additions for the test year and the escalation year. These differences are discussed in Chapter 7, Utility Plant in Service.

C. DISCUSSION

CWS depreciation rates for components listed in the CPUC Uniform System of Accounts for Water Utilities are based on a "Depreciation Study as of December 31, 2006" prepared by AUS Consultants dated June 21, 2007. If the depreciation rates proposed in the study are used, instead of the depreciation rates adopted in D.06-08-011, the overall composite depreciation rate for the South San Francisco District increases by 0.46% (from 2.54% to 3.00%) and 0.45% (from 2.54% to 2.99%) in Test Year 2011 and Escalation Year 2012, respectively.

DRA accepts the depreciation rates for accounts as provided by CWS, but recommends that DRA perform an audit of CWS' submitted Depreciation Study in the next General Rate Case. The Depreciation Study should use a 0% salvage value for small mains (<6" in diameter). This recommendation is consistent with

the procedure that CWS uses to replace these small mains, abandoning the old main in place, when it is replaced.[54]

Based on the annual depreciation rates for accounts as provided in CWS' Depreciation Study the CWS estimates of implicit composite depreciation rates are 3.00% for Test Year 2011 and 2.99% for Escalation Year 2012. The DRA estimates of implicit composite depreciation rates are 2.98% for Test Year 2011 and 2.98% for Escalation Year 2012.[55] Differences between CWS and DRA estimates for composite depreciation rate are due to differences in Plant-in-Service estimates and subsequent differences in Beginning of Year Gross Depreciable Plant, and Depreciation Annual Accrual. Differences in Plant-in-Service estimates are discussed in Chapter 7.

D. CONCLUSION

DRA reviewed and accepts the methodologies outlined in CWS' Depreciation Study. DRA recommends an audit of CWS' Depreciation Study in the next GRC.

DRA recommends that the Commission adopt DRA's adjusted numbers for depreciation.

[54] For examples, as shown in Tab 55 of the 2009 Bakersfield District Project Justifications, the estimated cost of abandonment of 4" main is $0, this is also attached as Tab L in Appendix B to this report.

[55] Composite Depreciation Rates can be found in Workpaper 9-B2.

TABLE 8-1

CALIFORNIA WATER SERVICE COMPANY
SOUTH SAN FRANCISCO DISTRICT

DEPRECIATION RESERVE & EXPENSE

TEST YEAR 2011

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Depreciation Reserve - BOY	16,204.0	16,241.8	37.8	0.2%
Accruals				
Transportation Equipment	4.4	11.0	6.6	150.0%
Contributed Plant	298.0	311.5	13.5	4.5%
Allocated non-reg contracts	0.0	0.0	0.0	0.0%
Other Plant in Service	1,104.6	1,264.4	159.8	14.5%
Total Accruals	1,407.0	1,586.9	179.9	12.8%
Retirements	(139.3)	(139.3)	0.0	0.0%
Depreciation Reserve - EOY	17,173.7	17,377.9	204.2	1.2%
Weighting Factor	50%	50%		
Wtd. Avg. Depr. Reserve	16,688.9	16,809.9	121.0	0.7%

TABLE 8-2

CALIFORNIA WATER SERVICE COMPANY
SOUTH SAN FRANCISCO DISTRICT

DEPRECIATION RESERVE & EXPENSE

ESCALATION YEAR 2012

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Depreciation Reserve - BOY	17,173.7	17,377.8	204.1	1.2%
Accruals				
Transportation Equipment	4.0	12.6	8.6	215.0%
Contributed Plant	301.1	313.2	12.1	4.0%
Allocated non-reg contracts	0.0	0.0	0.0	0.0%
Other Plant in Service	1,131.8	1,322.5	190.7	16.8%
Total Accruals	1,436.9	1,648.3	211.4	14.7%
Retirements	(162.4)	(162.4)	0.0	0.0%
Depreciation Reserve - EOY	18,448.2	18,863.7	415.5	2.3%
Weighting Factor	50%	50%		
Wtd. Avg. Depr. Reserve	17,660.4	17,964.2	303.7	1.7%

CHAPTER 9: RATEBASE

A. INTRODUCTION

DRA and CWS' estimates for Rate Base for Test Year 2011 and Escalation Year 2012 are discussed in this Chapter.

B. SUMMARY OF RECOMMENDATIONS

DRA recommends adoption of its estimates for: Plant in Service, Depreciation Reserve, and Rate Base.

C. DISCUSSION

Tables 9-1 & 9-2 show DRA's and CWS' estimates of Rate Base for Test Year 2011 and Escalation Year 2012. The significant differences between the Rate Base developed by DRA and CWS are due to the differences in the estimates for Weighted Average Plant in Service, Depreciation, Working Cash, and General Office Allocation.

D. NET-TO-GROSS MULTIPLIER

The net-to-gross multiplier represents the change in gross revenue required to produce a unit change in net revenue. Both DRA and CWS have calculated three multipliers which reflect: 1) the increase required under 100% equity-financing where State and Federal taxes are incurred; 2) the increase required under 100% debt financing where taxes are not incurred (identical to the increase necessary to offset expenses); and 3) the increase required for additions to ratebase, which incorporates the capital structure and financing costs of the utility.[56]

[56] As adopted in Commission Decision 09-05-019

DRA and CWS use similar methodologies in calculating the net-to-gross multipliers. Calculations are shown in Table 9-3 and results are presented below. DRA's adjustment to the Domestic Production Activities Deduction (*see Chapter 5*) results in slightly higher numbers than those calculated by CWS.

California Water Service Company
South San Francisco
Net to Gross Multiplier

	CWS	DRA
100% Equity	**1.60490**	**1.68752**
100% Debt (expense)	**1.00152**	**1.00152**
Ratebase Additions	**1.32360**	**1.36771**

TABLE 9-1

CALIFORNIA WATER SERVICE COMPANY
SOUTH SAN FRANCISCO DISTRICT

WEIGHTED AVERAGE DEPRECIATED RATE BASE

TEST YEAR 2011

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Wtd.Avg. Plant in Serv.	48,213.0	54,492.1	6,279.1	13.0%
Materials & Supplies	100.8	100.8	0.0	0.0%
Working Cash - Lead-Lag	325.0	565.1	240.1	73.9%
Amt withheld from Employees	4.1	(4.1)	-8.2	-200.0%
Wtd. Avg. Depr. Res.	(16,688.9)	(16,809.9)	(121.0)	0.7%
Interest Bearing CWIP	0.0	0.0	0.0	0.0%
Advances	4,782.0	4,782.0	0.0	0.0%
Contributions	6,346.6	6,730.6	384.0	6.1%
Reserved Amort.Intangibles	354.9	373.1	18.2	5.1%
Deferred Taxes	2,896.4	2,896.4	0.0	0.0%
Unamortized ITC	52.8	52.8	0.0	0.0%
General Office Alloc	1,312.7	1,312.7	0.0	0.0%
Taxes on - Advances	127.2	127.2	0.0	0.0%
Taxes on - CIAC	265.6	265.6	0.0	0.0%
Average Rate Base	19,226.9	25,214.7	5,987.8	31.1%
Interest Calculation:				
Avg Rate Base	19,226.9	24,552.9	5,326.0	27.7%
x Weighted Cost of Debt	3.16%	3.16%	0.0%	0%
Interest Expense	607.6	775.9	168.3	27.7%
less Cap. Interest	0.0	0.0	0.0	0.0%
Net Interest Expense	607.6	775.9	168.3	27.7%

TABLE 9-2

CALIFORNIA WATER SERVICE COMPANY
SOUTH SAN FRANCISCO DISTRICT

WEIGHTED AVERAGE DEPRECIATED RATE BASE

ESCALATION YEAR 2012

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Wtd.Avg. Plant in Service	49,183.3	57,558.3	8,375.0	17.0%
Material & Supplies	100.8	100.8	0.0	0.0%
Working Cash - Lead-Lag	287.7	560.1	272.4	94.7%
Amt withheld from Employees	4.1	(4.1)	-8.2	-200.0%
Wtd. Avg. Depr. Reserve	(17,660.4)	(17,964.2)	(303.7)	1.7%
Interest Bearing CWIP	0.0	0.0	0.0	0.0%
Advances	4,806.7	4,806.7	0.0	0.0%
Contributions	6,137.9	6,509.1	371.2	6.0%
Reserved Amort.Intangibles	432.0	462.4	30.4	7.0%
Deferred Taxes	2,973.9	2,973.9	0.0	0.0%
Unamortized ITC	49.6	49.6	0.0	0.0%
General Office Alloc	1,273.7	1,273.7	0.0	0.0%
Taxes on - Advances	117.6	117.6	0.0	0.0%
Taxes on - CIAC	244.5	244.5	0.0	0.0%
Average Rate Base	19,151.2	27,085.0	7,933.8	41.4%
Interest Calculation:				
Avg Rate Base	19,151.2	26,428.2	7,277.0	38.0%
x Weighted Cost of Debt	3.16%	3.16%	0.0%	0.0%
Interest Expense	605.2	835.1	230.0	38.0%
less Cap. Interest	0.0	0.0	0.0	0.0%
Net Interest Expense	605.2	835.1	230.0	38.0%

TABLE 9-3

CALIFORNIA WATER SERVICE COMPANY
SOUTH SAN FRANCISCO DISTRICT

NET-TO-GROSS MULTIPLIER

TEST YEAR 2011
AND ESCALATION YEAR 2012

Item	DRA	CWS
1) Uncollectibles %	0.15188%	0.15188%
2) 1-Uncoll (100%-line 1)	99.84812%	99.84812%
3) Franchise tax rate	0.00000%	0.00000%
4) Local Franchise (line 3*line 2)	0.00000%	0.00000%
5) Business license rate	0.00000%	0.00000%
6) Business license (line 5*line 2)	0.00000%	0.00000%
7) Subtotal (line 1+line 4+line 6)	0.15188%	0.15188%
8) 1-Subtotal (100%-line7)	99.84812%	99.84812%
9) CCFT (line 8 * 8.84%)	8.82657%	8.82657%
10) Domestic Production Activities Deduction *	0.27033%	8.98633%
11) FIT (line 8 minus line 9 minus line 10 * 35%)	31.76292%	28.71233%
12) Total taxes paid (ln 7+ln 9+ln 10)	40.74138%	37.69078%
13) Net after taxes (1-line 11)	59.25862%	62.30922%

Net-to-Gross Multiplier (1/line 12) = 1.68752 (DRA)
Net-to-Gross Multiplier (1/line 12) = 1.60490 (Utility)

*DRA - Line 8 minus Line 9 multiplied by 9% multiplied by percentage of Qualified Activities
CWS - only mulitplies Line 8 by 9%.

This net-to-gross multiplier is to be used for changes in net revenue
attributable to rate of return changes only and not to be used for rate base offsets.
The net-to-gross for rate base offsets is much lower because the interest payments
1 for the debt portion of rate base increase is tax deductible.

CHAPTER 10: CUSTOMER SERVICE

A. INTRODUCTION

DRA has reviewed California Water Service Company's ("CWS'") filing, responses to DRA data requests, and data obtained from the Commission's Consumer Affairs Branch regarding customer complaints in the South San Francisco District.

B. SUMMARY OF RECOMMENDATIONS

DRA finds CWS' customer service record satisfactory and the customer service process reasonable.

C. DISCUSSION

1) Customer calls and complaints

The customer service representatives (CSR) in the district office handle all customer complaint calls. When a customer calls the district office, the CSR logs the date and time of the call along with a description of the complaint into the Customer Service Information system. The majority of customer complaints are resolved the same day they are received. Billing questions make up a large portion of the calls received by the district office. The CSR tries to resolve the billing issue directly. However, if a resolution can not be reached, the Customer Services Manager in each district is empowered to make billing adjustments as needed.

All customer complaints filed with the Commission are sent to the CWS rates department and follow a different procedure than described above. The rates department contacts the district office to inform them of the complaint with the goal of resolving the issue within 7 days. The district office researches the complaint, contacts the customer to inform them of the investigations findings and works to reach a resolution. Then the district office submits its findings and resolution to CWS' rates department for review. CWS' rates department then

contacts the Commission's Division of Water and Audits or the Consumer Affairs branch to present the complaint findings. There have been no complaints filed by customers with the Commission since the last GRC.

2) Water Quality complaints

CWS' records indicate that the number of water quality complaints have been low relative to the number of customers in the South San Francisco District. An effective system is in place to receive and record customer complaints concerning water quality. Customer complaints regarding taste and odor are handled by a CSR who explains to the customer why those types of conditions occur. Other types of complaints, such as low pressure or the presence of sand in the water, require a serviceman to go out to the premises and investigate the complaint. When a service call is required, the CSR notifies the maintenance department. CWS assigns personnel to investigate the problem, notify the customer, and resolve the issue. The majority of these complaints are resolved by inspecting the premises. CWS tracks all water quality complaints in the system and records them on a monthly summary report.

Table 10-A shows water quality customer complaint data for the last three years. There are six categories for the different kinds of water quality complaints. These categories are defined as:

- Air - can be trapped in water causing a milky appearance which goes away when allowed to stand and the air goes to the surface;
- Dirty - can be discolored water or sand in the water from mainline flushing or a main break in the area;
- Noise - can be associated with the water system, such as wells turning on, or the customer's internal plumbing;
- Pressure - can be too high or too low; and

- Taste or odor - can be stronger than usual from chlorine, or a musty odor the customer is not accustomed to.

Table 10-A

South San Francisco District Customer Water Quality Complaints			
Type	2006	2007	2008
Air	1	0	1
Dirty water	11	20	14
Noise	1	4	5
Pressure	25	21	20
Sand	0	0	1
Taste/Odor	3	7	8
Total	41	52	49
Number of Customers	16,194	16,223	16,229
Total as % of Customers	0.3%	0.3%	0.3%

There were a total of 34 complaints of dirty or discolored water in the past two years in this district. CWS states that dirty or discolored water can occur for a variety of reasons, such as when a CWS crew opens a fire hydrant, or there is a mainline pipe break. Sediment that has built up in the distribution system is lifted from the bottom of the pipe and suspended in the water. This discolors the water that enters the customer's home when the water is turned on. CWS investigated each complaint and the remedy was to flush the mains to clear the problem.

There were 66 complaints regarding pressure over the past three years. CWS investigated all complaints. CWS explains that the majority of the customer complaints regarding pressure were attributed to problems related to the customer's plumbing, such as service lines clogged. Other pressure complaints related to inadequately sized mains for the demand placed on them resulting in lowered pressure. One of the factors leading to a higher than average number of pressure complaints is the larger number of pressure zones required to serve the hilly topography. These types of pressure zones are more difficult to operate and

specific elevations within the zone have a large impact on the pressure that a customer experiences.

D. CONCLUSION

DRA recommends the Commission find CWS' customer service to be satisfactory.

CHAPTER 11: RATE DESIGN

A. INTRODUCTION

In this GRC application (09-07-001), CWS requested changes to the non-residential rate design in Special Request #6, and requested changes to the residential rate design in Special Request #11. Thus, the scope of this chapter is limited to recommendations regarding:

1) The Water Revenue Adjustment Mechanism and Modified Cost Balancing Accounts ("WRAM/MCBA"),[57]
2) Impacts of the conservation rate designs to date
3) Impacts on Low Income customer disconnections, and
4) Low income rate assistance surcharges

B. SUMMARY OF RECOMMENDATIONS

1) a. WRAM/MCBA Should Ensure Ratepayers Do Not Bear the Full Burden of the Economic Downturn

DRA recommends that the Commission require CWS to modify the WRAM/MCBA so that it does not disproportionately disadvantage ratepayers compared to shareholders. The WRAM should no longer require ratepayers to pay the full difference between the authorized quantity revenue and actual quantity revenue. The Commission should modify the WRAM/MCBA so that if there are reductions in consumption, ratepayers and shareholders should split this difference equally. This will ensure that ratepayers and shareholders are proportionally affected when conservation rates are implemented.

1) b. WRAM/MCBA sur-credits should be a flat amount applied to the service charge

When there is a combined over-collection in the WRAM/MCBA, the over-collection should be passed on to ratepayers through a flat surcredit on the service

[57] Other than recommendations regarding WRAM/MCBA in DRA's special request chapters.

charge. This change to the surcredit mechanism will ensure that water-conserving customers who use less water do not receive less surcredit than customers who use large quantities of water. This will enhance the conservation price signal.

2) Not Yet Enough Data to Determine Impacts of Conservation Rate Designs

This GRC application from CWS contains six months of consumption data after CWS implemented the rate design and WRAM/MCBA mechanism Trial Programs. Six months of consumption data is not long enough to draw conclusions about the impacts of the conservation rate designs. The Commission should evaluate the impacts of the conservation rate designs in CWS' next GRC.

3) The Commission should require CWS to monitor disconnections by month and communicate payment options to customers

The Commission should require CWS to continue to track the number of residential and LIRA customer disconnections per month. If the number of disconnections has increased, CWS should develop a low-cost customer communication plan to reduce the number of disconnections. In particular, CWS should place messaging in customers' bills and on its website explaining to customers the options that are available to them if they cannot pay their bills.

4) The Commission should authorize CWS to increase the surcharge for the low-income rate assistance program as necessary to continue to provide the benefit to qualifying customers

CWS states that it proposed to increase the surcharge to fund the low-income rate assistance ("LIRA") program.[58] DRA supports an increase in the surcharge to support the forecasted participation levels in the LIRA program.

[58] Report on the Results of Operation, July 1, 2009.

C. DISCUSSION

1) a. WRAM/MCBA Should Ensure Ratepayers Do Not Bear the Full Burden of the Economic Downturn

When the Commission adopted the WRAM/MCBA decoupling mechanism for CWS, the concept of the mechanism was to ensure a proportional impact on the utility and ratepayers when CWS implemented conservation rates. DRA's settlement with CWS, adopted in D.08-02-036 states:

> "Parties agree that the desired outcome and purpose of using WRAMs and MCBAs is to ensure that the utility and ratepayers are proportionally affected when conservation rates are implemented.
>
> a. In the context of this agreement, a proportional impact means that, if consumption is over or under the forecasted level, the effect on either the utility or ratepayers (as a whole) should reflect that the costs or savings resulting from changes in consumption will be accounted for in a way such that neither the utility or ratepayers are harmed, or benefit, at the expense of the other party."[59]

Since it is too early to evaluate quantitative usage data on the impacts of the conservation rate designs,[60] it is difficult to determine how much sales have decreased due to the effects of conservation oriented rates. But it is unreasonable to assume that all recorded decrease in sales was entirely due to conservation oriented rates and conservation programming, as it is certain that some portion of the decrease was due to the economic downturn and other factors. Yet, as a result of the WRAM/MCBA, ratepayers are currently bearing the full cost of the economic downturn. This issue must be addressed immediately. Therefore, until

[59] Amended Settlement Agreement between The Utility Reform Network, The Division of Ratepayer Advocates, and California Water Service Company on WRAM & Conservation Rate Design Issues, p. 10, section X.2. Filed June 15, 2007, adopted in Decision 08-02-036.

[60] At the time CWS filed this GRC, there were only six months of usage data after implementation of the WRAM/MCBA and rate design Trial Programs, and CWS did not provide an analysis of this usage information to determine whether the utility and ratepayers are proportionally affected when conservation rates were implemented.

the impacts of conservation efforts can be better quantified, DRA recommends that the Commission modify the WRAM so that if there are reductions in consumption, rather than ratepayers being required to pay the full difference between the authorized quantity revenue and actual quantity revenue, ratepayers and shareholders split this difference equally. This will ensure that ratepayers and shareholders are proportionally affected under the WRAM/MCBA decoupling mechanism, when conservation rates are implemented in accordance with the settlement.[61]

This issue should be examined in the next GRC, when over three years of consumption information will be available after the implementation of the WRAM/MCBAs and conservation rates. However, it is clear at this time that the WRAM/MCBA mechanisms have led to an unintended consequence: the WRAM shields shareholders from all financial consequences of the severe economic downturn, while ratepayers bear the full cost of the economic downturn. This is an unintended consequence of the WRAM/MCBA trial program, not one of the goals of the program.[62]

While there is not currently a method available to apportion reductions in usage to each different cause – such as conservation and changes in economic conditions, it is clear that there are different factors that can affect water usage and each of them contribute to usage reductions. This is contrary to the

[61] Amended Settlement Agreement between The Utility Reform Network, The Division of Ratepayer Advocates, and California Water Service Company on WRAM & Conservation Rate Design Issues, p. 10, section X.2. Filed June 15, 2007, adopted in Decision 08-02-036.

[62] The goals of the WRAM/MCBA mechanism trial program were three-fold:

a)"Sever the relationship between sales and revenue to remove any disincentive for the utility to implement conservation rates and conservation programs

b)Ensure cost savings resulting from conservation are passed on to ratepayers.

c)Reduce overall water consumption by Cal Water ratepayers." (see the Amended Settlement Agreement between The Utility Reform Network, The Division of Ratepayer Advocates, and California Water Service Company on WRAM & Conservation Rate Design Issues, p. 8, section VI.1. Filed June 15, 2007, adopted in Decision 08-02-036).

WRAM/MCBA, which compensates CWS for all of the reductions in consumption, not just usage reductions from conservation. The Commission should modify the WRAM/MCBA mechanism so that it does not disproportionately disadvantage ratepayers compared to shareholders.

Further, the Commission specifically addressed the possible impact of a WRAM/MCBA for California American Water Company during an economic downturn in decision 08-06-002, p. 16, which stated:

> "One disparate impact that could occur in the Pilot Program period would be a severe economic downturn in one or more of the Los Angeles service areas that causes a significant decrease in revenues. This could occur from a high rate of home foreclosures and/or business slowdowns or shutdowns. We find this would clearly be a disparate impact as the WRAM mechanism would shield shareholders from all financial consequences of the economic downturn while requiring ratepayers to bear the full cost. Since Cal-Am will be tracking sales levels by customer class and service area, any disparate impact can be quickly seen and addressed."

CWS tracks sales levels by customer class and service area; and it is possible to calculate and graph changes in consumption in different classes and service areas. However, it is much more complex to determine or even speculate about the reasons for the changes in consumption. Especially because of the significant economic downturn in recent years, that happens to coincide with implementation of increasing block rates, makes it difficult to draw conclusions about the reasons for any changing consumption patterns. Also, all CWS' districts under-collected revenue in the WRAM account during July – December 2008, except Bakersfield, King City, and Palos Verdes.[63] This is an indication that sales were lower than forecasted for almost all districts during this timeframe.

[63] CWS WRAM/MCBA report to the Division of Water and Audits, March 2009

The WRAM should no longer require ratepayers to pay the full difference between the authorized quantity revenue and actual quantity revenue. The Commission should modify the WRAM/MCBA so that ratepayers and shareholders split this difference equally. This will ensure that ratepayers and shareholders are proportionally affected when conservation rates are implemented.

1) b. WRAM/MCBA Sur-credits Should Be a Flat Amount Applied to the Service Charge

When there is a combined under-collection in the WRAM/MCBA, this should be recovered from ratepayers through volumetric surcharges, in accordance with Decision 08-02-036. This maintains the conservation price signals of the surcharge because customers who use more water pay a larger portion of the surcharge. However, when there is a combined over-collection in the WRAM/MCBA, this should be passed on to ratepayers through a flat surcredit on the service charge. This change to the surcredit mechanism will ensure that water-conserving customers who use less water do not receive less surcredit than customers who use large quantities of water. Furthermore, this will also enhance the conservation price signal.

This recommendation is important in light of the first six months of WRAM/MCBA and Rate Design Trial Program implementation where the over and under-collections in the net balance of the WRAM/MCBA typically were far greater than the 2.5%[64] trigger. In fact these balances were 10% or greater in seven districts, and were between 5% and 10% in another seven districts.[65]

2) Not Yet Enough Data to Determine Impacts of Conservation Rate Designs

[64] The trigger is "2.5% of the district's total recorded revenue requirement for the prior calendar year" (see Amended Settlement Agreement between The Utility Reform Network, The Division of Ratepayer Advocates, and California Water Service Company on WRAM & Conservation Rate Design Issues, Section IX 3) d., Filed June 15, 2007, adopted in Decision 08-02-036.

[65] See CWS WRAM/MCBA report to the Division of Water and Audits, March 2009.

DRA and CWS reached a settlement agreement on rate design and revenue decoupling on April 23, 2007, and amended the settlement on June 15, 2007. The Commission ultimately adopted the settlement on February 28, 2008 in decision 08-02-036, and CWS had 90 days after the Commission decision adopting the settlement before the Trial Program became effective. CWS implemented the Trial Program, including the WRAM/MCBAs and conservation rate designs, via Advice Letter 1855, which became effective on July 1, 2008. CWS filed this GRC application in July 2009, and included data through December 2008. Thus, this GRC contains six months of consumption data after CWS implemented the WRAM/MCBA mechanisms. Six months of consumption data is not long enough to draw conclusions about the impacts of the conservation rate designs.[66]

3) CWS should track low income disconnections on a monthly basis and provide this information in its annual report to the Commission on the WRAM/MCBA balances

Ordering Paragraph 6 from the Phase 1A Decision 08-02-036 from the conservation OII (I.07-01-022) ("OP6") requires CWS to provide data related to the implementation of the conservation rate design trial programs. Specifically, OP6 states:

> "6. Suburban, Park, and Cal Water shall provide the following information in their next general rate case: monthly or bimonthly (depending upon the billing cycle) … increase or decrease in disconnecting low-income program participants for nonpayment by district after adoption of conservation rate designs; increase or decrease in low-income program participation by district after adoption of conservation rate designs; increase or decrease in residential disconnections for nonpayment by district after adoption of conservation rate designs…."

[66] See Special Request #11 for further discussion.

In this GRC application, CWS provided some of the information required in this Ordering Paragraph.[67] In particular, CWS provided information on customer disconnections for both residential and LIRA customer groups for the firs six months of Trial Program implementation between July 1, 2008 and December 31, 2008. However, this data incorrectly "double-counted" low income customer disconnections.[68] CWS provided corrected data for July 2008 through July 2009. However, CWS did not yet provide information about customer disconnections prior to July 2008.[69] In order for the Commission to assess the "increase or decrease" in low-income disconnections when CWS implemented the conservation rate design and WRAM/MCBA Trial Programs, pursuant to the above Ordering Paragraph, data on customer disconnections from before and after the implementation of the conservation rate designs must be compared. Since CWS only provided information from after the implementation of conservation rate designs, this is not in compliance with OP 6. DRA believes CWS intended to provide the correct information and CWS should provide this information in its rebuttal testimony so that the Commission can consider it in this proceeding.

On a going forward basis, the Commission should require CWS to continue to track the number of residential and LIRA customer disconnections per month and report this information in the annual report that CWS submits to the

[67] Prepared Testimony of David Morse, p. 28 – 31.

[68] Email from CWS (Tu Rash), on 1/13/2010, states regarding the query Cal Water originally ran for Dave Morse "in effect that query double counted the number of LIRA customers."

[69] DRA requested information on residential and LIRA customer disconnections from July 2007 through July 2009 in LWA-5 on 12/22/09, and CWS provided an initial response on 12/31/09, but it did not correspond to the numbers in David Morse' testimony, so CWS provided a revised response on 1/5/2010, but this still did not correspond to the numbers in David Morse' testimony. CWS provided a further revised response on 1/13/2010, but this only provided data from 2008-2009. At the time DRA had to finalize this testimony, it had not yet received final numbers for residential and LIRA customer disconnections from July 2007 through 2009, although DRA is confident CWS would have provided the information to comply with this ordering paragraph had there been unlimited time.

Commission by March 31 each year regarding WRAM/MCBA balances.[70] If the number of disconnections has increased, CWS should develop and implement a low-cost customer communication plan to reduce the number of disconnections. In particular, CWS should place messaging on customer bills and on CWS' website explaining to customers the options that are available to them if they cannot pay their bills. For example, PG&E has a message on its website that says:

> "We Know Times Are Tough.
> If you or someone you know is having trouble paying your bill, we can help. Please call us today at 1-800-743-5000 so we can discuss program options and payment arrangements that work for you."[71]

Another example is San Diego Gas and Electric Company, which has messaging on its website that provides a rotational link to "Need Extra Help With Your Bill? Learn about available assistance" and "Get extra help with your bill."[72]

4) The Commission should authorize CWS to increase the surcharge for the low-income rate assistance program as necessary to continue the benefit for qualifying customers

CWS states that it proposed to increase the surcharge to fund the low-income rate assistance ("LIRA") program.[73] The Commission authorized the LIRA program in D.06-11-053, and it provides a 50% discount on the service charge to qualifying households. DRA supports the continuation of the LIRA program as authorized in D.06-11-053. To the extent that an increase in the

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[70] Pursuant to "Amended Settlement Agreement between The Utility Reform Network, The Division of Ratepayer Advocates, and California Water Service Company on WRAM & Conservation Rate Design Issues," section IX 3), Filed June 15, 2007, adopted in Decision 08-02-036.

[71] http://www.pge.com/myhome/ (accessed 1/28/2010).

[72] http://www.sdge.com/index/ (accessed 1/28/2010).

[73] Report on the Results of Operation, July 1, 2009, Chapter 12 "Present and Requested Tariffs" states that customers pay a surcharge of $0.009 per Ccf to fund the program and that CWS proposes to increase the surcharge to $0.015 per Ccf.

surcharge is necessary to support the LIRA program at forecasted participation levels, the Commission should authorize the increase in the surcharge. DRA notes that this surcharge is combined with the surcharge for the Rate Support Fund ("RSF") and that CWS' requested increase from $0.009 to $0.015 per ccf[74] also includes the additional funding to support CWS' increases in the RSF subsidies. For this reason, the required increase in the surcharge to support only the LIRA program should be lower than $0.015 per ccf and should be calculated based upon the final revenue requirement in this case as well as the adopted rate of participation in the LIRA program.

D. CONCLUSION

The Commission should adopt the recommendations on rate design and revenue decoupling included in this chapter.

[74] Additional Prepared Testimony of Thomas Smegal, Special Request 11, p. 15, lines 21-22.

CHAPTER 12: WATER QUALITY

A. INTRODUCTION

The Rate Case Plan requires water utilities to submit information about water quality in their GRC applications. This Chapter presents DRA's review of water quality submittals by California Water Service Company ("CWS") for the South San Francisco District and CWS' response to DRA's data request.

The California Department of Public Health ("CDPH") is the primary agency responsible for ensuring that the water provided to the public by the District is safe for consumption. DRA reviewed the most recent CDPH inspection report, the District's response to the report, and the CDPH's response to DRA's inquiry on the District's water quality issues and compliance status.

B. SUMMARY OF RECOMMENDATIONS

Based upon the information provided by the company and by the CDPH, CWS' South San Francisco District appears to be in compliance with all applicable water quality standards and requirements. Exceptions if any are noted below.

C. DISCUSSION

The South San Francisco District purchases treated water from the San Francisco Public Utilities Commission ("SFPUC") to meet about 97% of its water supply requirement. The balance is supplied by its groundwater wells. Only six of the District's eight wells are active.

Water from the District's wells has iron, manganese, nitrate and/or volatile organic compound exceedances. Iron and manganese are removed in the District's treatment plant. For the system to meet drinking water standards, the remaining contaminants are dealt with through blending with the SFPUC water.

The District has not exceeded any primary or secondary Maximum Contaminant Levels ("MCLs") since the last general rate review. However, three of the District's wells have 1,2,3-Trichloropropane ("TCP") contaminations that exceed Notification Level. Of these three, one is now offline due to methyl tertiary-butylether ("MtBE") contamination. The other two wells have TCP concentrations of 0.035 and 0.037 ug/L, or about eight times the Notification Level of 0.005 ug/L for TCP. Water from these wells is blended with SFPUC purchased water to meet drinking water standards. CWS is currently conducting a feasibility study to determine the best treatment option to address the TCP, MtBE and Tetrachloroethylene ("PCE") problems.[75]

The CDPH conducted a system sanitary inspection in 2007 and issued an inspection reporting citing operational concerns and needed system modifications. CWS has addressed all recommendations. Additionally, the CDPH issued a Compliance Order in 2007 to the District for not having a Cross-Connection Control Program in place. CWS reports that it has satisfied the conditions set forth in the Compliance Order. The CDPH, in response to DRA's inquiry, confirms that the District is in compliance with all applicable water standards.

D. CONCLUSION

Based on the information received, it appears that CWS' South San Francisco District is in compliance with all applicable water quality standards and requirements and is addressing issues raised by the CDPH.

[75] CWS' response to DRA's data request PPM-00, Item 12.c.

CHAPTER 13: STEP RATE INCREASE

A. FIRST ESCALATION YEAR

On or after November 1, 2011, the Commission shall authorize CWS to file a Tier 1 advice letter, with appropriate supporting workpapers, requesting the step rate increase for 2012 or to file a lesser increase in the event that the rate of return on rate base, adjusted to reflect the rates then in effect and normal ratemaking adjustments for the 12 months ending September 30, 2011, exceeds the lesser of (a) the rate of return found reasonable by the Commission for CWS for the corresponding period in the most recent rate decision or (b) the rate of return found reasonable in this case. This filing should comply with General Order 96-B.

The Commission's Water Division ("Water Division") should review the requested step rates to determine their conformity with this order, and the requested step rates should go into effect upon the Water Division's determination of compliance. The Water Division should inform the Commission if it finds that the proposed rates do not comply with this Decision. The Commission may then modify the increase. The effective date of the revised tariff schedule should be no earlier than January 1, 2012. The revised schedules should apply to service rendered on and after their effective date. Should a rate decrease be in order, the rates should become effective on the filing date.

B. SECOND ESCALATION YEAR

For the second year, the Commission should grant an attrition adjustment for the revenue requirement increases attributable to expense increases due to inflation and rate base increases that are not offset by revenue increases. The revenue changes shall be calculated by multiplying forecasted inflation rate and operational attrition plus financial attrition times adopted rate base in 2012 times the net-to-gross multiplier.

C. ESCALATION YEARS INCREASES

The table below shows the Summaries of Earnings for Escalation Years 2012 and 2013. To obtain the increases in these years, D. 04-06-018 and D. 07-05-062 require water utilities to file an Advice Letter 45 days prior to the start of the year showing all calculations supporting their requested increases.

The revenues shown in Table 12-1 are for illustration purposes and the actual increases would be authorized only after approval of the utility's advice letter.

TABLE 13-1

SUMMARY OF EARNINGS

CALIFORNIA WATER SERVICE COMPANY
SOUTH SAN FRANCISCO DISTRICT

Item	DRA 2011 (Thousands of $)	DRA 2012	% increase	
Operating revenues	14,241.7	14,538.8	2.1%	Esc. Factor
Operation & Maintenance	8,243.0	8,457.3	2.6%	1.026
Administrative & General	658.8	674.6	2.4%	1.024
G.O. Prorated Expense	1,611.3	1,653.2	2.6%	1.026
Depreciation & Amortization	1,131.8	1,161.2	2.6%	1.026
Taxes other than income	244.8	251.2	2.6%	1.026
State Corp. Franchise Tax	125.8	124.9	-0.8%	
Federal Income Tax	582.4	579.0	-0.6%	
Total operating expenses	12,598.0	12,901.5	2.4%	
Net operating revenue	1,643.6	1,637.3	-0.4%	
Rate base	19,156.8	19,082.7	-0.4%	
Return on rate base	8.58%	8.58%	0.0%	

APPENDIX A

QUALIFICATIONS AND PREPARED TESTIMONY

QUALIFICATIONS AND PREPARED TESTIMONY
OF
PATRICK E. HOGLUND

Q1. Please state your name and business address.

A1. My name is Patrick E. Hoglund. My business address is 505 Van Ness Avenue, San Francisco, California.

Q2. By whom are you employed and in what capacity?

A2. I am employed by the California Public Utilities Commission – Division of Ratepayer Advocates (DRA) Water Branch - as a Senior Utilities Engineer.

Q3. Please briefly describe your educational background and work experience.

A3. I am a graduate of the University of California, Berkeley, with a Bachelor of Science Degree in Industrial Engineering and Operations Research. I am also a graduate of the University of Rochester, William E. Simon School of Business with a Master of Business Administration Degree with concentrations in Finance and Corporate Accounting. I am a licensed professional Industrial Engineer.

I have been employed by the California Public Utilities Commission since 2005. Currently I work on Class A water General Rate Cases. From July 1999 through August 2004, I was a Senior Rates Analyst at Pacific Gas and Electric Company, where I worked on a variety of revenue requirements issues related to natural gas. From 1990 through 1997, I was employed by the California Public Utilities Commission. During this time I worked on small water utility rate cases, large water utility rates cases, and also worked in the Telecommunications and Energy Branches of the former Commission Advisory and Compliance Division, as well as in DRA.

Q4. What are your responsibilities in this proceeding?

A4. I am the Co-Project Manager for this proceeding with overall responsibility for twelve CWS Districts: Bear Gulch, Chico, Dixon, Livermore, Los Altos, Marysville, Mid-Peninsula, Oroville, Redwood Valley, South San Francisco, Stockton, and Willows. I am also responsible for the Executive Summary, Chapter 1-Overview and Policy, and Chapter 13-Step Rate Increase of the district reports.

Q5. Does this conclude your prepared testimony?

A5. Yes, it does.

QUALIFICATIONS AND PREPARED TESTIMONY
OF
LISA BILIR

Q.1 Please state your name, business address, and position with the California Public Utilities Commission (Commission).

A.1 My name is Lisa Bilir and my business address is 505 Van Ness Avenue, San Francisco, California, 94102. I am a Public Utilities Regulatory Analyst V in the Water Branch of the Division of Ratepayer Advocates.

Q.2 Please summarize your education background and professional experience.

A.2 I received my Bachelor of Science degree in Biological Sciences from Stanford University in 2001 and a Master of Public Policy from The Goldman School of Public Policy at U.C. Berkeley in 2007.

From August 2006 to June 2007 I worked in the Water Branch of DRA as a graduate student intern. I have been a full-time staff member in DRA since October 2007. Since then I completed a settlement with California-American Water's (CAW) Los Angeles district and the City of Duarte on conservation rate design and revenue decoupling issues. I was DRA's project manager for CAW's conservation application for the Monterey District, where I completed settlements with CAW and Monterey Peninsula Water Management District on conservation programs and plans. I also submitted testimony in CAW's Monterey District GRC regarding conservation rate design and revenue decoupling issues and reached a settlement on that issue. In addition, I completed a settlement with San Gabriel Valley Water Company (SGVWC) in May 2008 regarding an interim budget and funding mechanism for conservation programs in its Fontana Water Company Division. I am DRA's project manager for SGVWC's conservation application A.08-09-008 and submitted testimony regarding rate design, revenue decoupling and reporting requirements in that proceeding.

Q.3 What is your responsibility in this proceeding?

A.3 I am responsible for the chapters on Rate Design, and Special Requests 1, 6, 11, 12, 13, 15, and 29 and I am a co-author for the chapters on Revenue and Special Request #28. For the Revenue chapters, I am primarily responsible for the number of customer and revenue calculations; for the Special Request #28, I am responsible for the portion of the chapter other than the Introduction and discussion of an OIR.

Q.4 Does this conclude your prepared direct testimony?

A.4 Yes, it does.

QUALIFICATIONS AND PREPARED TESTIMONY
OF
ZACHARY BURT

Q.1 Please state your name, business address, and position with the California Public Utilities Commission (Commission).

A.1 My name is Zachary Burt and my business address is 505 Van Ness Avenue, San Francisco, CA 94102. I am an intern in the Water Branch of the Division of Ratepayer Advocates.

Q.2 Please summarize your education background and professional experience.

A.2 I received a dual bachelor's degree in Economics and Chemistry from the University of California at Berkeley in 2001. I received a Master's of Science from the Energy and Resources Group at U.C. Berkeley in May, 2009, and am continuing on to pursue a PhD in the same program as of Fall 2009. My program of study focuses on the economics of water, including demand management, conservation pricing and water services treatment and provision. In DRA, I analyzed and made recommendations on Golden State Water Company's conservation rate designs and reached a settlement with Golden State Water Company in that case. I also wrote testimony and testified orally on San Gabriel Valley Water Company's conservation rate design proposals.

Q.3 What is your responsibility in this proceeding?

A.3 I am a co-author of Chapter 2 on Revenues, and am primarily responsible for the sections regarding sales forecasts.

Q.4 Does this conclude your prepared direct testimony?

A.4 Yes, it does.

QUALIFICATIONS AND PREPARED TESTIMONY
OF
PAT MA

Q1. Please state your name, business address, and position with the California Public Utilities Commission (Commission).

A1. My name is Pat Ma and my business address is 505 Van Ness Avenue, San Francisco, California 94102. I am a Utilities Engineer in the Water Branch of the Division of Ratepayer Advocates (DRA).

Q2. Please summarize your education background and professional experience.

A2. I received a Bachelor of Science Degree in Industrial Engineering with a concentration in Management from San Jose State University in 1986. In December 2008, I rejoined the Commission as a Utilities Engineer in the DRA's Water Branch. My previous professional position was as a Senior Utilities Engineer at the Commission, where I worked from 1986 to 1999 in transportation, telecommunications, energy and water areas. I received my Professional Engineer License in Industrial Engineering in the State of California in 1989 and also worked briefly for the U.S. EPA, Region 9 as an Environmental Engineer in 1989.

Q3. What is your responsibility in this proceeding?

A3. I am a witness for this proceeding and responsible for Chapters 3 - Operations and Maintenance Expenses for California Water Service Company's Bear Gulch, Livermore, Los Altos, Mid Peninsula and South San Francisco districts and Chapter 12 - Water Quality for its twelve northern districts.

Q4. Does this conclude your prepared direct testimony?

A4. Yes, it does.

QUALIFICATIONS AND PREPARED TESTIMONY
OF
CLEASON D. WILLIS

Q1. Please state your name, business address, and position with the California Public Utilities Commission (Commission).

A1. My name is Cleason D. Willis and my business address is 505 Van Ness Avenue, San Francisco, California 94102. I am a Regulator Analyst in the Water Branch of the Division of Ratepayer Advocates (DRA).

Q2. Please summarize your education background and professional experience.

A2. I graduated from the California State University of Hayward with a Bachelor of Science Degree in Business Administration and Finance, and a Masters of Science Degree in Public Administration and Management. After graduation I joined the California Public Utilities Commission. Since that time I have performed economic and reasonableness analysis for various electrical, gas, water, and telecommunications operations. I have written reports and testified regarding the validity of my findings and recommendations concerning my analysis for various utility proceedings.

Q3. What is your responsibility in this proceeding?

A3. I am responsible for Chapter 4 - Administrative and General Expenses for the following California Water Service Company's northern districts: Bear Gulch, Chico, Dixon, Livermore, Los Altos, Marysville, Mid-Peninsula, Oroville, Redwood Valley, South San Francisco, Stockton, and Willows.

Q4. Does this conclude your prepared direct testimony?

A4. Yes, it does.

QUALIFICATIONS AND PREPARED TESTIMONY
OF
K. JERRY OH

Q1. Please state your name, business address, and position with the California Public Utilities Commission (Commission).

A1. My name is K. Jerry Oh and my business address is 505 Van Ness Avenue, San Francisco, California. I am a Financial Examiner IV in the Water Branch of the Division of Ratepayer Advocates.

Q2. Please summarize your education background.

A2. I graduated from the University of California at Los Angeles, with a Bachelor of Arts in Business Economics.

Q3. Briefly describe your professional experience.

A3. I have been employed by the Commission since February 2000. While at the CPUC, I have conducted audits of water and energy utilities, managed contract auditors, and reviewed energy procurement costs. For the past three years, I have worked on different areas of a water utility's GRC.

Q4. What is your responsibility in this proceeding?

A4. I am responsible for review of the Affiliate Transaction of CWS, General Office Cost Allocation, Taxes for the Bear Gulch, Chico, Dixon, Livermore, Los Altos, Marysville, Mid-Peninsula, South San Francisco, Oroville, Redwood Valley - Coast Springs, Redwood Valley - Lucerne, Redwood Valley - Unified, Stockton, and Willows districts, and Special Request 3.

Q5. Does this conclude your prepared direct testimony?

A5. Yes, it does.

QUALIFICATIONS AND PREPARED TESTIMONY
OF
ISAIAH LARSEN

Q1. Please state your name, business address and position with the California Public Utilities Commission (Commission).

A1. My name is Isaiah Larsen. My business address is 505 Van Ness Avenue, San Francisco, California 94102. My job title is Utilities Engineer and I work in the Water Branch of the Division of Ratepayer Advocates.

Q2. Please summarize your educational background and work experience.

A2. In December 2007, I completed my M.S. in Environmental Engineering at the University of California, Berkeley. My undergraduate degree is in Materials Science and Engineering from the University of California, Los Angeles.

I have been employed as a student intern at both Lawrence Livermore National Laboratory (LLNL) and Sandia National Laboratories in Livermore, CA. While at LLNL, I designed and fabricated micro-fluidic hydrogen fuel cells for portable power applications.

As a graduate student intern with the Water Branch, my work included a settlement between DRA and Del Oro Water Company on the Regional Intertie Project. I have been a full-time staff member of DRA since July 2008. I have prepared written and oral testimony for the following proceedings: the conservation and rationing programs in Phase 2 of Cal Am's Conservation A.07-12-010, unaccounted for water in Cal Am's Monterey GRC, A.08-01-027, and utility plant in service and conservation for the SJWC GRC, A.09-01-009.

Q3. What is your responsibility in this proceeding?

A3. I am the witness responsible for Utility Plant in Service testimony for Willows, Marysville, Redwood Valley, Dixon, Stockton, Livermore, Bear Gulch, Los Altos, Mid-Peninsula, and South San Francisco. I am responsible for Depreciation, Working Cash and Lead-Lag testimony for these districts. I am also responsible for Special Request 20.

Q4. Does that complete your prepared direct testimony in this proceeding?

A4. Yes.

QUALIFICATIONS AND PREPARED TESTIMONY
OF
RICHARD RAUSCHMEIER

Q1. Please state your name, business address, and position with the California Public Utilities Commission (Commission).

A1. My name is Richard Rauschmeier and my business address is 505 Van Ness Avenue, San Francisco, California. I am an Auditor in the Water Branch of the Division of Ratepayer Advocates.

Q2. Please summarize your educational background.

A2. I graduated from The Johns Hopkins University with a Bachelor's degree in Environmental Science, concentrating in chemistry and water treatment. In 2000, I earned a Masters of Science from Purdue University. In 2008, I completed training and successful examination for certification as both a Water Treatment and Distribution Operator in California under the State's Department of Public Health.

Q3. Briefly describe your professional experience.

A3. For more than 10 years, I have worked as an employee or consultant assisting organizations develop efficient and effective business policies and practices. In December of 2008, I joined the California Public Utilities Commission as an Auditor.

Q4. What is your responsibility in this proceeding?

A4. I am sponsoring the calculation of Net-To-Gross Multipliers of all districts (see Chapter 9), as well as, DRA's testimony in Chapter 5 (Taxes Other Than Income) and Chapter 6 (Income Taxes) for the 12 districts (Antelope Valley, Bakersfield, Dominguez, East Los Angeles, Hermosa-Redondo, Kern River, King City, Palos Verdes, Salinas, Selma, Visalia, and Westlake).

Q5. Does this conclude your prepared direct testimony?

A5. Yes, it does.

QUALIFICATIONS AND PREPARED TESTIMONY
OF
TONI CANOVA

Q1. Please state your name, business address, and position with the California Public Utilities Commission (Commission).

A1. My name is Toni Canova and my business address is 505 Van Ness Avenue, San Francisco, California. I am a Public Utility Regulatory Analyst in the Water Branch of the Division of Ratepayer Advocates.

Q2. Please summarize your education background and professional experience.

A2. I graduated from The Evergreen State College in Olympia, Washington, with a Bachelor of Arts Degree in Environmental Studies. I have been employed by the Commission for over six years. I have testified before the Commission in General Rate Cases involving several Class A water utilities including California Water Service Company and Park Water Company. Previously, I was employed by the State of Washington's Department of Ecology for 10 years.

Q3. What is your responsibility in this proceeding?

A3. I am responsible for testimony in Chapter 10 – Customer Service, and for the Result of Operations tables for the twelve northern districts.

Q4. Does this conclude your prepared direct testimony?

A4. Yes, it does.